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New Collection Methods

A Systematic Treatment of the Place of Collections in Marketing

Including Constructive Credits, Psychology of Collections, Procedure and System for Collection Departments, and the Principle of Resale

By

EDWARD HALL GARDNER, A.M.

Associate Professor of Business Administration, University of Wisconsin
Author of "Effective Business Letters"

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To EDWARD M. SKINNER
GENERAL MANAGER, WILSON BROTHERS
CHICAGO

PREFACE

What President Wilson has termed "the conservation of facilities" applies with special emphasis to mercantile credits and collections. To weather the storm of war, business must increase its efficiency and prevent waste.

The object of this book is to show the best methods of making collections, and the principles underlying them.

The "sales point of view" is the point of view of the modern credit or collection man. He realizes that his function is constructive, and that he has a part to play in the marketing plan of his house. This function is set forth in Chapters III, IV, and VII, "the Place of Collections in the Marketing Plan," "The Principles of Resale," and "Selling and Reselling Credit." The interesting work of some of the foremost business houses of the country in building the retailer into a better credit risk is told in Chapters XXVII and XXVIII on constructive credits. The psychology of the delinquent customer has been analyzed, and the various appeals to pride, good-will, etc., have been illustrated by extracts from the entire range of interviews and correspondence in use in modern houses. The procedure of collections is fully treated and illustrated, as well as the office system for a collection department.

The intention has been to make the book of service not only to the credit and collection departments, but to other departments and executives. Chapter XIV, "Co-operation with the Sales Department," in addition to those above cited illustrates this purpose.

Nine-tenths of business, including credits and collections, is done by mail. Accordingly much attention has been given

in the present volume to the management and the psychology of correspondence. More than two hundred complete letters are given, with extracts from a great number of others, representing a careful selection from many thousand letters. At the same time the collector who does his work in person will find most of the book applicable to his problems, especially Chapters XV-XVII on the psychology of collection, and Chapters XVIII-XXV on procedure. He can also make large use of the principles of resale.

The "new collections" is not a simple matter, but an absorbing and fascinating study, involving a broad understanding of the objects of the business organization. No man thoroughly understands his business problems until he has re-examined them in the light of these modern principles.

"Scientific methods" in business are no dream, though doubtless some conscientious objectors will rise up to scoff at them to the end of time. Accumulated, formulated experience is a safer guide to practice than rule-of-thumb. The acid test has been applied to the methods presented in this book; they have been drawn from practical business, where their efficiency has been proved by their ability to produce results—in some cases astonishing results—wherever applied.

It is modern practice to analyze one's business health, and to take measures for maintaining and improving it, rather than to call in a surgeon and receive the verdict, "Too late to operate."

From the very nature of the book, my obligations are more numerous than space will allow me fittingly to acknowledge. It is said that an Englishman, a Frenchman, and a German were each commissioned to write a book on the camel. The Englishman took the next boat for Egypt, and studied the camel on the ground; the Frenchman consulted all the books in the public library; while the German shut himself up in his study and evolved the camel out of his

inner consciousness. This book has been written chiefly "on the ground," and in consequence owes much at every point to the business men who have generously given from their experience in behalf of the cause of better business. The nature of the information thus conveyed was in most cases delicate, in many confidential, so that it has seldom been possible to make precise reference at the point of quotation to the house or the individual quoted.

Among the many to whom I should like to express my thanks, special acknowledgment is due to M. W. Cresap, Katherine D. Huber, H. R. Kern, and H. A. Nelson, of Hart, Schaffner and Marx; W. H. Pruden, of Marshall Field and Company; F. L. Macomber, of Hibbard, Spencer Bartlett and Company, of Chicago; H. Uehlinger, of Moller and Schumann; A. G. Teweles, of Butler Brothers; M. C. Carr, of Robt. H. Ingersoll and Brother; H. Marshall, of Joseph Wild and Company; George Williams, of H. A. Caesar; D. E. Beebe, of The Alexander Hamilton Institute; Bevan Lawson, of E. R. Squibb and Sons; Frank Flagg, of Morse and Rogers; T. V. Morton, of Doubleday, Page and Company; N. L. Green, of Thomas A. Edison, Inc.; V. I. Montenyohl and L. A. McQueen, of the B. F. Goodrich Rubber Company, Akron, Ohio; E. S. Wagner, Scott Paper Company; H. A. Black, Alexander Brothers, Philadelphia; H. N. Raseley, Norton Company, Worcester; E. S. Johnson, Frank E. Davis Company, Gloucester; F. G. Waner, Jr., Beechnut Packing Company, Canajoharie; A. M. Brooke, White Swan Spices and Cereals, Limited, Toronto.

I am indebted also—as what worker in this field is not?—to J. H. Tregoe, Secretary-Treasurer of the National Association of Credit Men, and to S. J. Whitlock, President of the Association.

It is an especial pleasure to express indebtedness to the firm of E. F. Ruedebusch and Sons of Mayville, Wisconsin,

for material from their system for retail collections, inasmuch as two members of this firm have been members of my University classes. My hearty thanks also are due to other former students who have successfully applied resale policies to their various lines of business, and have contributed to the material in this book.

To my publishers, I owe thanks for many courtesies, gratefully remembered; especially to C. B. DuBois, of their collection department, companion in some of my research.

My chief indebtedness is expressed in the dedication.

EDWARD H. GARDNER.

Madison, Wisconsin,
July 1, 1918.

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New Collection Methods

CHAPTER I

THE NEED OF COLLECTION REFORM

The Business Situation

Better handling of collections is today an urgent necessity of business. In fact, a good case can be made for the statement that it is the most urgent necessity.

The retailer, the wholesaler, the manufacturer, all have most pressing need of capital. Merchandise is scarce, and is advancing. The man who has bought goods and sells them today at a dollar, making a profit, is likely to find that to get more goods he must go into the market and buy at a dollar and a half. Where is he to get the half dollar?

The manufacturer, who goes to purchase raw materials and labor, finds his price advanced by hundreds of thousands of dollars. The jobber, obliged to carry a huge stock, thanks his stars if he has the ready money to pay cash for merchandise that meets the standard of his trade. The retail merchant, coming into the market with his relatively small cash and small credit, has during the past season been journeying to the markets in advance of the usual buying period, fearing to wait for the visit of the salesman lest he be left high and dry without goods to stock his store.

What sort of terms can he make with his jobbers and manufacturers? How long will they be willing—or able—to carry him? What advantage will the man with capital possess over the man without capital; will it be the advantage that fills up the margin between a business life and death?

The nearest road to an increase in his available capital lies through closer collections.

Competent judges pronounce that the business world must change for the future from an indefinite credit basis to a basis more nearly approximating cash. They point out the impossibility of continuing the present loose, easy-going methods. Competition inside the country will force these methods out of use; competition with Europe after the war will sign their death warrant, or the death warrant of the firms that persist in using them.

The Change Not Automatic

But some business men are tempted to believe that the change will come about automatically, without their effort. They interpret "*must* be changed" as "*will* be changed." Just as some Americans feel that the war will be won without their aid, without their needing to change their customary ways of doing business, so many business men have a general feeling that the reform of our lax credit and collection situation will come about without their bestirring themselves; that the general change in the community methods will sweep them and their customers with it.

True, the war will be won by somebody—but by whom?

And great numbers of business men will benefit by the reformation of credits and collections in America; but numbers will also be wrecked by the current that carries others to safety. The campaign for trade acceptances and the talk about "changing to a cash basis," sound pleasantly in their ears, and they have a faith that somewhere a panacea will be found for all their ills. The faith in a panacea is deep rooted in human nature. We all have a lurking hope that somebody will come along and pull the cork out of the bottle, pour the patent medicine into a spoon, and put it in our mouths while we sit happy in an armchair; and that thereafter we shall

rise and go about our business, freed from all our ills. Nature does not operate that way. She demands a careful diet, steady habits, a system purged of waste, and kept in condition by a right proportion of rest and exercise, work and recreation; and sets as the motto of reform, "Nothing without labor."

The merchant who wishes to use successfully the trade acceptance must first have it "sold" to him, and must then carry on a campaign to "sell" it to his customers, and to other merchants in his line. The change to a cash basis, if adopted instantly and with the full meaning of the term, would shatter our commercial structure; men do not intend tomorrow to demand cash from all their customers, nor to pay cash for all their purchases.

The possibility of changing *more nearly* to a cash basis, of reducing the credit period where it is unreasonably long, and of preventing delinquency, is a possibility that can be grasped only by those merchants and manufacturers who educate their customers into better habits, and attract enough good-pay trade to take the place of the poor-pay trade which they are weeding out. While the courageous and far-sighted business man is tactfully and skilfully reducing his accounts receivable and abolishing illegitimate credit privileges, increasing his capital, maintaining the quality of his stocks, persuading his customers of their advantage in the new method, effecting a change in their habits and his own with the least friction; while he is maintaining good-will and solidifying his business constituency—what will be the situation of the man who makes no effort? Will he not be obliged, when the pinch comes, to force unwelcome methods on customers who are unprepared for them? In the resulting unpleasantness, will he not lose some trade, and much good-will and hard-won confidence?

Many a business man desires to reform his methods and to collect the money due him, but he fears to offend his

trade. Or he becomes more urgent in collections, meets with opposition, and slips back into his former attitude, saying, if he is a retailer, "You can't collect your money in this town," or "I don't want to drive everybody to buy of the mail-order houses." Or if a wholesaler, he argues, "That may be all right for your line, but our trade won't stand for those methods."

Many another business man, keen and alert, sensitive to changing conditions and willing to take advantage of them, is deeply interested in improved methods of collections, and is willing to co-operate with other men to put them into effect.

Successful Collection Policy

Accordingly, the purpose of this book is to show what collection methods are proving most successful, and to show what principles underlie these methods. Its aim throughout is to indicate the importance of right methods vigorously applied, and to treat of collections as an integral part of the conduct of successful business, influenced by other departments and influencing them. Forethought and skill are to be applied to collections as much as to sales, advertising, buying, or credits. A haphazard and irresolute policy, or one that consists in nothing but a few "schemes" which may not be in keeping with the nature of the house and its business, or which may even discredit the house, is as unwise in collections as in sales, buying, or credits.

The Time to Put Our House in Order

If this book has a theory or a conviction, it is that now is the time for reform, and for a change to a better basis.

For the sake of keeping off the rocks of bankruptcy during the war, and of conducting business with the least waste, so that the energy of the nation is not impaired—now is the time to put our house in order.

For the sake of increasing the available capital of the nation, and of mobilizing our credit resources to meet the strains of war upon our financial machinery—now is the time to put our house in order.

For the sake of taking advantage of the general state of mind, which is ready to accept a change, ready to adopt new habits without much protest, if they can be shown to serve the common good—now is the time to put our house in order.

For the sake of meeting the adjustment after the war, which will bring changes that no man can predict; for the sake of weathering the winds of that day, which will shake the strongest houses; for the sake of preparing America to meet the competition of nations far less wasteful and more desperately in need than we—now is the time to put our house in order.

Methods of New Business

Reformation in collections is not the only medicine needed by business. Avoidance of overbuying by retailers; careful restriction of stocks to those having the largest margin of utility, in business of all types; accounting that will really tell the manufacturer his cost of production, and that will show the retailer and wholesaler their cost of doing business and point out what lines are profitable; better use of sales organization and advertising to solidify existing markets and to seek new ones—these are all necessities, so urgent that it is idle to determine which, on the whole, is most important.

Two Efficiency Texts

But this can be said, that in the past, two texts have furnished most of the sermons preached to business men on the subject of efficiency:

1. "Increase your turnover of stock." Keep your capital at work, not tied up in goods on the shelf.

2. "Collect the money due you." Keep your capital at work for *you,* not at work for somebody else to whom you have loaned it without interest—for that is what the man is doing who fails to collect.

Now the result of contemporary conditions is to make the first advice hard to follow. Owing to the scarcity of merchandise, the rise in prices, the transportation situation, and other factors, merchants are obliged to anticipate their needs more largely than ever before. They cannot buy so close to the market; they cannot in most cases hope to increase their capital by improving the rate of turnover. This throws double emphasis on the need for better collections.

How to Increase Capital?

Or to put it in another way. A business man needs more capital, to compensate for the increased price of goods. He can get this in one of four ways:

1. He can reduce his stock of goods.
2. He can collect what is due him.
3. He can owe more.
4. He can borrow more.

Certainly the last two are bad policy, though without doubt the seller who is fortunate in his supply of capital will be more or less ready to share the burden of present conditions with his customers, and to carry them when necessary. Likewise the banks will be called on to extend aid. But without question the business man who is looking for more capital must reduce his stock and collect his outstanding obligations.

Need of a Sound Collection Policy

And nothing is more certain than that banks, and well-capitalized manufacturers or jobbers, will resist to the utmost the attack on their treasury by slow-pay purchasers. They will insist, at all events, that the plaintiffs come into court

with clean hands; that they exhaust every resource to collect the money due them from their own customers before coming to ask for extra credit from the seller. The seller, too, will take more interest in "constructive credits," in helping to increase the efficiency of the buyer by suggesting improvements in the conduct of his business, and in the reduction of his outstanding accounts. Nor will these suggestions be limited to the retail field. When occasion arises very few sellers will hesitate, in view of the present state of the market, to use diplomatic means of advising purchasers of every rank that they tighten up on collections first, and then ask aid.

The stand that banks are likely to take when asked for additional credit is indicated by their hearty support of the campaign for trade acceptances, which is designed to transfer the credit burden from the seller to the buyer, where it belongs; yet by a means which will not be too hard for him.

"Never was there a time," said a prominent wholesaler, "when we have had a better right than we have now, to insist on a sound policy from the merchants who come to buy of us. And this means sound collections."

The Need for Co-operation

Business men of all degrees must join hands if the best results are to be secured from the movement for reform. One resourceful and courageous man can accomplish much, and if he uses modern methods he need not be handicapped by the fear of driving away trade. But he can succeed better with the united support of houses in his industry, or of other merchants in his city. With the aid of banks, chambers of commerce, and associations of credit men, a co-operative movement can be undertaken which will spread the reform through the community, prevent a relapse to former conditions, and make easier the task of the resolute business man who has seen the light.

CHAPTER II

THE TEST OF EFFICIENCY

Increasing the Efficiency of the Credit Department

What should be the goal of the credit man's endeavors? By what test should he measure his efficiency? Is it to be the percentage of losses from bad debts? Very well—but after he has reduced this as low as possible, then what next? And is there any other test? How about the "turnover" of customers, the number of customers who bought last year, but whose names are not on the books this year? In place of every one of them, some new account must be solicited at a selling expense greater than would be required in selling a customer who had already "bought satisfaction" from this house.

"Naturally, the work of collecting information about our customers and keeping personal track of the state of their accounts occupies a good share of my time," says a credit manager. "When I first came in here, there was no system for that purpose, and to establish one took not only all the hours of the day but all my thought and energy. Today that work is reduced to routine, and while it still requires time, the bulk of it can be managed pretty easily. That may not be true with men in some other lines of trade, but we are fairly fortunate in our customers."

"Our percentage of losses was too high," says another manager, "and I have just been spending a good deal of energy in devising means of securing more reliable credit information."

"Just now I am educating our salesmen to see that their

advantage lies in sound credits," another manager will tell you.

"And I am conducting a drive to increase sales to old customers," says another.

"Anybody can collect the money—our task is to make merchants out of storekeepers. That is the pride and pleasure of my job," says still another credit man of constructive policies.

"My big task just now is to reform the abuse of the discount privilege," is the response of another manager.

"I have looked over our collection procedure, and find two places in which it is weak; I have devised two methods to use at these points which already are shortening up our average credit period, and reducing by many thousands of dollars the amount regularly outstanding on our books," says another.

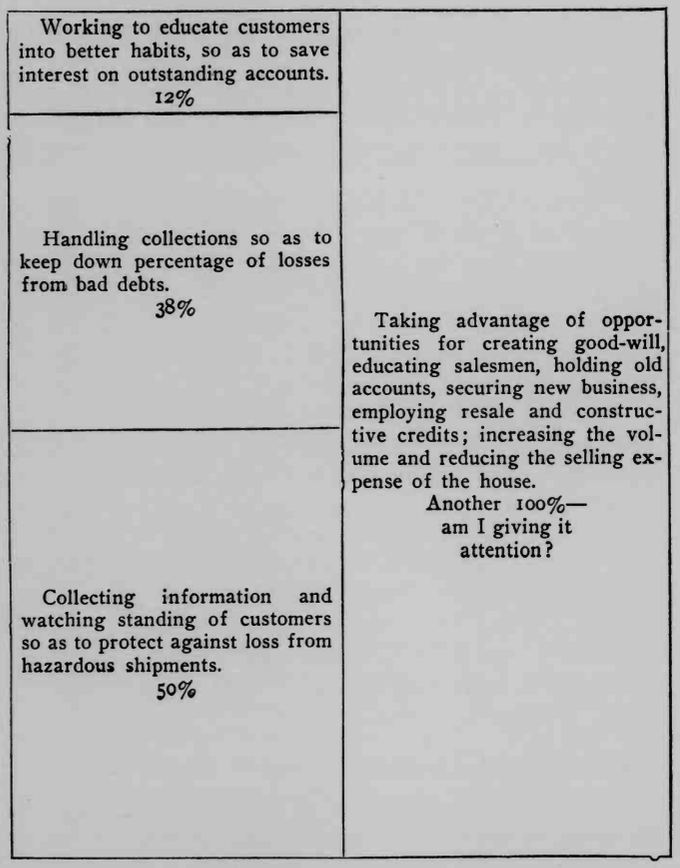
"In the last few months the work that has given me most satisfaction has been 'selling the idea' of trade acceptances to our customers," answers another credit manager. "It took a good deal of my time and most of my thought during that period, but it will bring in tremendous results."

These are fair samples of the point of view of the good credit man. He surveys his task, determines its opportunities, reduces its essentials to routine, and thereby keeps his mind fresh for an assault on some other part of his work. It is a lifelong task, because conditions are ever changing, but it is full of stimulus and inspiration.

The Credit Man's Division of Energy

A suggestive diagram showing a composite picture of the foregoing testimony is the one on page 10, made up on the basis of a certain credit man's experience. It shows two columns, each of which in his opinion represents 100 per cent of opportunity. In the first are comprised his regular duties, each with a specific goal: to keep down losses through hazard-

THE CREDIT MAN'S DIVISION OF ENERGY



"I divide up my regular functions about as shown; some men will have to give less attention to collections, some more. Then I ask myself if my other constructive opportunities, which I figure are a possible equal of the first column, are receiving the attention they should."

ous shipments by watching the credit standing of customers; to follow up collections and thereby prevent losses from bad debts; and to save for his house the interest on capital unnecessarily tied up in outstanding accounts. The other column shows opportunities for increasing the volume of sales and reducing selling expense by improvements installed all along the line of his activities. "I divide up my regular functions about as shown; some men will have to give less attention to collections, some more. Then I ask myself, if my other constructive opportunities, which I figure are a possible equal of the first column, are receiving the attention they should. Some items will bulk large at one time, others at another; the division into percentages is only suggestive." The activities represented in the second column will of course have a marked effect on the efficiency of those shown in the first column, and may perhaps reduce still further the percentage of energy—a very different thing from the percentage of time—which they require.

Sales and Collections Shown Graphically

A graphical representation of the relation between sales and collections can be prepared month by month and kept year after year for purposes of comparison. The effect of new sales policies or collection methods or any steps bearing on the results shown in this graph should be noted carefully; though it must be remembered that results of this character are not to be looked for too early after the new method has been installed. A chart with two lines, one for sales and one for collections, is kept by many executives, the proportion between the two being the important consideration.

An article in *System* for March, 1918, by James W. Morrisson, president of The Fuller-Morrisson Company, wholesale druggists, Chicago, describes a method of representing by a single curve the proportion between sales and

accounts receivable, over any desired period. First obtaining the average daily sale for the two months past, he next takes the total accounts and bills receivable for the last day of the month, and divides this latter figure by the figure showing the average sale. If receivables are $800,000 and average daily sales are $20,000, the resulting figure, 40, is established on the chart. If the curve for the past month slopes up, collections have been poor; if it slopes down, they are improving.

Factors Affecting an Estimate of Credit Department Costs

The following outline has been drawn up by the writer to represent the various factors which should be taken into consideration when estimating the cost of a credit department and determining its efficiency.

I. Direct charges:
   1. Accounts charged off as non-collectible
   2. Collector's commissions
   3. Court and legal costs
   4. Credit department:
      (a) Salaries
      (b) Rent
      (c) Supplies, including printing
      (d) Postage
      (e) Telephone and telegraph

II. Interest on accounts receivable

III. Loss of turnover on capital tied up in accounts receivable

IV. Loss of discounts in paying own bills

V. Lost sales; lost customers due to:
   1. Harsh or overconservative credit and collection policies
   2. Loss of respect through lax credit and collection policies
   3. Unwillingness to trade where account is overdue

VI. These are affected by:
   1. Sales department policies
   2. Credit department policies
   3. Collection department policies
   4. Claim department policies
   5. Efficient system in the credit and collection department

Do Merchants Know Their Costs?

Under the direction of the State Food Administration, an investigation was recently made of the accounts of the retail grocers in a Middle Western city, to determine the cost of the credit department in order to ascertain the amount which should be added to the price of groceries for charge customers, under the "cash and carry" plan.

The evidence showed clearly that few grocers out of the total number knew where they stood, or what their credit expense was.

The information received was tabulated under the following heads:

Average Amount Accounts Receivable
Average Credit Period
Average Number of Accounts Receivable
Average Monthly Amount of Charge Sales
Average Bad Debt Loss
Collection Expense
Bookkeeper's Wages and Expense
Total Credit Department Expense
Per Cent Cost of Credit Department

The answers given under the heads of Average Amount of Accounts Receivable, and Average Amount of Charge Sales, often indicated that either the one or the other was incorrect, or that the figure given as the average credit period

could not be correct. In other words, the merchant's own figures often showed that his customers paid their bills much less frequently than he supposed they did, or that his average outstanding accounts receivable were greater than he supposed.

Since a merchant's entire system of buying and paying for his own purchases is dependent on the time when he gets in his own money, this means that he is basing his business on an estimate which the figures from his own books show to be false.

The percentage of total sales required to maintain the credit department was given by different merchants all the way from .01 to 8.2 per cent! Obviously most of these figures were totally unreliable.

The merchants did not know how often their customers paid them; they did not know how much their credit business was costing them. It goes without saying that they were not undertaking a reorganization of their credit and collection methods, because they were not awake to the real situation.

The Wholesaler's Interest in Retail Credits

The condition just cited is of interest to wholesalers, manufacturers, associations of commerce, and retail and wholesale associations, as well as to the individual retailers concerned; perhaps the consumer has as vital an interest as anyone. Here is an important item of retail service that meets with official condemnation as being too expensive for a time of emergency—for the recommendation of the "cash and carry" system amounts to such a condemnation. But no one is able to tell what this item of service costs. No one can say whether the charge account privilege is worth what it costs the retailer, or whether it could be so managed as to become worth its cost.

The manufacturer or wholesaler who is approached by a

retailer with a plea for extension of time on his account, is interested in helping him to make his own collections as well as in advising him whether to maintain a privilege which has always been considered an asset and a means of enlarging and stabilizing trade. The credit man finds himself concerned with "constructive credits," and cannot but consider the efficiency and prosperity of his customers as one test of his own efficiency. If they fail, he suffers; if he can help them, he benefits.

Percentage of Loss Not the True Test

"How low are your losses?" asked a former sales manager of his old friend, the credit man. *"Too low,"* was the startling reply. "I am thinking we must have lost a good deal of valuable business keeping them down to that point." The story illustrates the fact that the credit man knows he has a constructive function which cannot be measured in terms of a single test. His efficiency is bound up with the welfare of his house. Perhaps, after all, the turnover of customers is the final test of the credit department's efficiency.

The Function of the Credit Manager

The terms "credit manager" and "collection manager" as used in this work need not be very strictly interpreted. The function of collection is the subject we are concerned with, in every sense both broad and narrow. In the broad sense, every member of the organization, whether president, salesman, bookkeeper, subordinate, or department head, is interested in collections just as he is interested in sales. In the narrow sense, it may happen that a house has no officer entitled collection manager, or that it applies the term "collections" only to the work of attorneys, agencies, or collectors outside the house. Its own work of collection may be performed entirely by the credit department, statements and

reminders being handled by the bookkeeper, ordinary letters by the assistant or territorial credit men, and special cases by the credit manager. In a retail store the manager or proprietor may handle all collections, or may have a system which turns over nearly all this work to the bookkeeper.

A credit manager has, of course, well-defined functions with regard to the granting or refusing of credit, and this usually gives him supervision over the broad aspects of collections. To a certain degree the titles, credit manager and collection manager, as used in this book are interchangeable, in that every business man engaged in collections should have the broad and constructive vision of the credit manager, and every man engaged in a credit department should have the keen interest in prompt and systematic payment that is bred into the good collection man.

CHAPTER III

THE PLACE OF COLLECTIONS IN THE MARKETING PLAN

The Goal of Credit

Credit is the mightiest force in American business and collection is the goal of credit. Repeated sales, established customers, and satisfactory business are the goal of both. Properly applied credit, exercising a due regard for collection, results in more business and better business. The management of any business organization and the individual who has charge of collection, need to consider collection, not as a separate department with a limited task, but as a vital part of the organization, co-ordinated with all other parts, affecting them and affected by them.

Collection From the Point of View of the Buyer

If any man doubts the need of harmonizing the procedure of the collection department with the other operations of the house, let him look at collection from the point of view of the buyer.

It is not uncommon for a retailer to receive in the same mail an enthusiastic letter from a sales department urging him to buy, and a dunning letter from the collection department of the same house demanding that he pay for what he has bought. One of these departments is certainly wrong, and has misjudged the man to whom it writes. What will be the effect on the customer of such playing at cross purposes?

The common example of failure to co-operate is afforded by the salesman who recklessly oversells his customers, then growls at the "turn-down" his orders receive from the

credit department, and sympathizes openly with the customer's complaint against the way the collection manager is pressing him for payment. This is not a pretty spectacle for the customer to behold. It breaks down in his mind the prestige of the house, makes him less willing to heed its advice about buying, and strews thorns on the path of the collection manager.

A Unified Merchandising Plan

The customer should see all the departments of a house functioning together to aid him in merchandising. He should understand that the credit, sales, and collection departments, all have a common object, i.e., to aid him to dispose of goods at a profit for himself and for the house which sells them to him. The purpose of credit is to help him enlarge his business by selling more goods than he has cash to pay for; the purpose of sales is to get into his hands goods adapted to his needs and on which he can make a profit; and the purpose of collection is to get him to pay for goods already purchased, so that he can be allowed to purchase other goods to sell at a profit. The work of each is necessary to his success in business.

It is hard sometimes for these various departments to realize their essential unity. They occupy different offices, are composed of men of different temperaments, and sometimes build up contradictory policies. But the buyer sees them all as a unit. Each of its representatives signifies to him the house as a whole; and the lack of harmony between departments shows very plainly to him. All these conflicting methods, which take their rise in the minds of men widely separated from each other, converge and meet in the morning's mail of the retailer and display their unconscious differences side by side on his desk. The result can hardly be favorable to the common object of all

departments of the house—to build the retailer into an ever better outlet for its goods.

The Co-ordination of Departments

Modern business takes a broad view of collections, and does not rest content with the theory that the collection man spends half his energy running down "dead beats" and the other half in sending out statements. The executive today, whether manufacturer, jobber, or retailer, studies the place of collections in the entire operation of his house, that is to say, in its marketing plan. Where does the collection department fit into the complete plan of getting the goods into the hands of the customers? The entire organization of the seller, including every department and individual from the president to the shipping clerk, has a part to play in this marketing plan, in distributing goods and in securing payment for them. The marketing function is especially noticeable in the sales and advertising departments, but it is no less a function of the credit and collection departments. It is necessary to study the place these latter departments occupy in order to adopt policies which shall harmonize with the general purposes of the house, and to insure that these departments are overlooking no constructive opportunity.

Business cannot be carried on in water-tight compartments. The collection department which says or thinks, "Let the sales department sell the goods; all we have to worry about is getting the money," is as short-sighted as the sales department which acts on the doctrine that it is no concern of theirs how the money is collected—their task is to produce gross volumes of sales.

A Non-Productive Department?

Some executives are said to slight the credit and collec-

tion departments because they are non-productive. But the number of constructive opportunities which can fall to these departments when their function is carefully studied, redeem them from any such accusation.

"I have been credit and collection manager," remarked a New York executive, "and am now sales manager; but I still say that I was a bigger salesman for the house then than I am today. I had the selling point of view in all my work."

Problems of Increased Volume

Every endeavor to increase volume of sales throws a fresh burden on the collection department. If the increase is sought through an enlargement of the orders from each individual customer, then not only must the sales department stir itself to help the customers dispose of this unwonted quantity of merchandise, but the collection department must keep wide awake to make sure that the buyer does not make the larger invoices an excuse for poor paying. If a sales campaign is carried on in an unfamiliar territory, somebody in the house must study the methods of payment in that territory, must devise methods of collection accordingly, and must get in contact with the outside agency that does the best work in that locality. Perhaps volume is to be sought by selling direct to the retailer or to ultimate consumers, requiring collection methods that are brand new from top to bottom. It may be that a new class of trade is to be solicited whose orders will be smaller and perhaps more frequent. Then the house will demand a system to take care of them without undue expense. Perhaps a new line of goods is taken on, of value so attractive that it is certain to bring in quantities of new orders, but allowing so small a margin that unusually prompt collections and even specially close terms must go with them. Thereupon the

collection department must get up a special procedure to apply to the new situation.

Or, suppose a house has been competing for the orders of a well-established trade in a certain line and decides to enlarge its business by selling to the comparatively poor credit risks, that is, to a section of the trade which its competitors are deliberately avoiding. The highest intelligence in matters of credit and the greatest promptness of payment cannot be expected from this class of trade, and the collection department must prepare its weapons accordingly. The story has recently been told of a manufacturer who established himself on the market by instructing his salesmen to call only on dealers who had no credit rating. It is fair to suppose that the collection department of this manufacturer had no cobwebs in it.

A line of "luxury" goods may be taken on by a wholesaler who has been accustomed to deal in "utility" goods and who expects to bring in a new group of customers while he retains his old ones. But he may find it harder to get his money for the new line because the consumers who buy them are often in the slow-pay class. Any of these conditions may induce him to add an efficiency man to the staff of his credit department. Such an expert can use his skill in constructive credits in dealing with merchants who find it hard to make payments under the new conditions and are glad to receive suggestions in methods of financing and selling. (See Chapters XXVII and XXVIII.)

The Direct-Selling Manufacturer

The direct-selling manufacturer, who has either given up the jobber or who enters an industry with a marketing plan which goes direct to the retailer, finds on his books a great number of small accounts in place of a few large ones. Such alterations of organization and of trade channels

thrust fresh problems upon a management which has been used to handling a few accounts from firms personally known to the seller.

For example, the credit department of one well-known manufacturer at the beginning of a certain year handled about sixty accounts a month; in July of that year it handled three hundred. This was due in part to a vigorous new sales policy, and in part to giving up jobbers in a certain section of the country where formerly sales had been made, sometimes to jobbers, sometimes direct to retailers. The immediate result was to swamp the credit department until a satisfactory system was installed to care for the increased volume. The labor of caring for this flood of new accounts was part of the price—estimated in advance—paid by the manufacturer for his altered trade channels. If he eliminates the jobber in his other territories his credit manager will face new problems of greatly increased complexity and size.

CHAPTER IV

THE PRINCIPLE OF RESALE

Collection Is Resale

For the man who wants collections that *get the money*, there is one great principle that opens the way to success.

It is, "Collection is resale."

This is a more suggestive statement of the well-known principle, "Get the money but *keep the customer.*" How is the collector to keep the customer? By "reselling" him; that is, by reawakening, to some extent at least, the state of mind under which the sale was made.

Sale and Resale

When a sale is made, the salesman has succeeded in awakening in the customer's mind a desire for the article, whether goods or service, that is being sold. He has likewise convinced the customer of the value of the article and has induced him to take the action of ordering the goods. If the sale is made on credit, the buyer knows well that the time will come when he must pay for his purchase. But his desire for the goods is great enough to overcome the anticipated unpleasantness of parting with his money. Probably he is never so thoroughly "sold" as during the first few minutes after he has closed the deal, when he has all the joys of imagination. By the time the goods arrive, he may be in a mood to ship them back, and after they have been on his shelf or in use for some time, or even after he has sold them and received payment for them, he may be considerably less enthusiastic than he was at the moment of ordering.

When he ordered, moreover, he understood thoroughly—or should have been made to understand—the credit obligation, and he appreciated or should have appreciated the unpleasant consequences that would follow his failure to make payment. But this impression also may fade from his mind as time goes on.

One thing is certain—at the time of sale the customer's state of mind was a pleasant one. He wanted the goods; he applauded and approved of the credit arrangement that enabled him to get them; he was willing to pay. Certainly he did not originally buy the goods and assume credit responsibilities because he was *afraid* of what would happen if he did not, but because he was thoroughly *pleased* with the prospects. Accordingly, if this imaginary customer pays promptly on the due date, it is probably because he remembers his satisfaction with the goods, and because furthermore, he knows it is to his own advantage to live up to his credit obligations. Likewise, if he does not pay promptly, it is probably because these impressions have faded from his mind. The goods were sold, but they did not "stay sold," and the buyer must be "resold."

Reawakening a State of Mind

The first state of mind cannot be fully reawakened; we can hardly hope to get a man to pay his bills with as much enjoyment as he originally felt when buying the goods. To overbalance his natural reluctance to part with his money, the collector must throw into the scale such factors as the power of *habit*—it is habitual for a man to pay his bills whether he likes it or not; the moral *dislike of wrong-doing*—a man who does not pay his bills is condemned by his own conscience; and the *fear of force*—a man who does not pay his bills is subject to law, which will compel him to give up the money.

But the power of habit is likely to be upset by cross-currents of opposing desires when the customer wants the money for his own use. And while the dislike of wrong-doing and the fear of force hover always in the background of his mind, he may resist payment a long time before they operate strongly. Long terms and easy-going methods have been customary in America, so that the slow-pay man is apt to consider himself no worse than his neighbor, and to turn a deaf ear to the credit department's remonstrances until it takes strong measures.

The Value of Resale

Resale is the principle which reduces the creditor's bills receivable, gives him more capital to carry on an efficient business, increases his profits by decreasing his expenses, cuts down the credit period, turns delinquents into discounters, and establishes a clientele of financially sound customers. Resale builds a hearty good-will, establishes for the seller an identity of interest with his customers, and develops them into increasingly valuable outlets for his merchandise. Resale makes for co-operation, which is the vital principle of contemporary business.

Resale throws open to the collector all the storehouse of appeal and suggestion that has added such strength to modern merchandising when employed by the sales and advertising departments. It enlarges his study of the debtor's psychology, and increases his ability to get results in dealing with him. It invites him to employ more varied and accurately chosen weapons in his assault upon delinquency, and promises him as reward an easier victory.

The Coming Principle

Although the principle of resale has not hitherto been fully recognized or stated, it has been applied by forward-

looking merchandisers to the work of credit and collection, until it will soon revolutionize that portion of business procedure. In a hundred ways, the stress of war and after-the-war conditions will throw it into prominence.

Any house which should fail to employ modern methods of salesmanship and sales organization in the solution of its merchandising problems would be marked for a position of decreasing strength, if not for actual decay. Likewise the house which fails to understand and use the principle of resale, is foregoing a measureless advantage. The house which wishes an advantage over its competitors will seize and employ the new principle, and will deserve the success it earns.

Are Collections a Disease?

It must not be forgotten that collections are a part of marketing. Sometimes men make the mistake of thinking that the work of collections is made necessary by a disease of business, that the collection department is a sort of pest-house, which a healthy society would no longer require. They seem to believe that the collector deals exclusively with immorality, that he should show it severity, and no mercy; that he is a combination of shyster lawyer, hell-fire preacher, and executioner.

A Constructive Undertaking

No thinking man holds this view consciously, but some trace of it is seen in the talk about "getting onto a cash basis," and "eliminating the evil and expense of collections." The truth is that the credit system is the distinguishing mark of our present era of civilization, and that to go to a cash basis would set back the clock by centuries. The work of collections is not to eliminate a vice, but perpetually to aid in the great constructive enterprise of distributing goods. Infinite resource and planning must be devoted both to getting goods

into the hands of consumers, and to securing payment for those goods. The changing customs of business, the constant shifting of markets and populations and buying habits, the elasticity of human nature itself, will forever tax the wisdom and invention of merchandisers, both to sell their goods under new conditions, and to collect their money under the same new conditions. Business houses, like men, grow old and die; and the sign of their old age is their inability to adapt themselves to changed conditions. Adaptation is written into the law of growth. The constructive work of collecting the money will never be over, so long as there are goods to sell and money to be paid for them.

When man has become omniscient and perceives exactly where his duty and permanent advantage lie; when accidents no longer force men into the whirlpool of ruin where their sense of righteousness is lost and they grasp at every straw; when poverty and disease are gone, and war and selfishness have vanished, and all men think alike; when every buyer is born with a perfect knowledge of business and no longer needs education by those wiser than he—then the collection department may lay aside its eternal warfare on ignorance, carelessness, and opposing views of self-interest, and enjoy a well-earned repose. But for the next few years, at all events, the collection manager is not likely to work himself out of a job.

Driving Back the Frontier

It is probably true that the great task of merchandising in America is and has been to drive back the frontier, to raise the standard of living and the scale of civilization. It is just as true that the work of collecting money when it is due, of establishing sounder terms and a greater sense of responsibility, had its share in wresting us from the frontier conditions of finance, and in increasing our national prosperity and our ability to gratify our wants.

One Unit in an Organism

As has been said already, the collector's work is intimately related to all the other departments of the house, has its effect on them, and is affected by them. If sales are forced and improper promises are given, collection is difficult. If a new and daring plan of sale is adopted, side by side with it must be planned a collection method equal to the situation. If collection is not intelligently conducted, the next sales will be harder to make. If the claim department makes its adjustments bunglingly, collections are held up and rendered ineffective. If the goods are not what they should be, if the production department has failed, the collections will be slow or impossible.

Familiar Illustrations of Resale

One application of the principle of resale in collections is found in the method of collecting petty accounts as practiced by some houses who remind the customer, "We know you were satisfied with these goods," as a reason why he should pay for them. Other managers object to this on principle, pointing out that it is bad practice to carry over sales arguments into the credit period. Where the sale has been made, they say, and the customer has accepted the goods, it is bad practice to reopen the question. Every collection letter should state or imply directly that payment must be made; that there is no room for argument.

There can be no doubt that this principle is sound, but still it is possible to use resale as *one element* in collections. Provided it is assumed unhesitatingly that the goods were entirely satisfactory, to refer in early collection letters to the good quality of the merchandise, makes the debtor feel rather ashamed of himself for not paying promptly for value received. The strength of the creditor's position is not weakened any more than by the use of other courteous means of

requesting payment. Resale of the goods under these conditions is not a weak defense, but an attack on the debtor's resistance.

"The Money Is Due and Must Be Paid"

The credit manager of one of the largest corporations in the United States who had formerly been credit manager of one of the companies now controlled by the corporation said in reference to this method, "We never use any argument in collecting other than the one that the money is due and must be paid." In further conversation, however, he went on to show how every letter was written as a result of a close study and knowledge of the individual customer's likes and dislikes, of his business location and opportunity. He told also how his letters frequently included personal remarks on the customer's business or private affairs. "We like to show our customers that we know them as friends, and that we are as much interested in them when collecting money as when selling the goods." In other words, the resale attitude dominated the collection methods of this corporation. Although their methods were based on the fact of the customer's obligations, and never lost sight of the principle, "the money is due and must be paid," yet the human element—the resale point of view—was kept foremost.

Resale in Instalment Collections

The importance of the principle of resale in instalment collections is hard to overestimate. "Our whole problem," says a manager of a company whose name is known to every business man, "lies in painting the picture so strongly that it will remain in the mind of the buyer and get him to continue. Needless to say this cannot all be done at one time, but must be carried on through the period of instalment payment. The purchaser must be sold and resold. Delinquency is a state of

mind. The typical delinquent gets into that state because he has not imagination enough to see the consequences of his delinquency. Personally, I believe that this statement applies to business of every kind, whether the consequences of the buyer's lack of imagination are loss of credit, loss of business, loss of self-advantage, or something else. In every case, in order to sell the goods and secure payment, the customer must be sold and resold."

The question of instalment collections is treated fully in Chapters XXXIII-XXXIV.

Are You Reselling Goods or Credit?

While this question is discussed more fully elsewhere (see Chapter VII, "Selling and Reselling Credit"), it is proper to point out here that resale may be applied to credit as well as to goods. It is lack of imagination, according to the manager just quoted, that prevents some of his customers from keeping on with their instalment payments. To get them to continue he must get them to realize the advantages of the goods he is selling. Is it not equally true that lack of imagination and, still more, lack of information pertaining to the nature and value of the credit privilege, are the cause of most delinquency? The credit manager must sell and resell credit.

CHAPTER V

USING THE PRINCIPLE OF RESALE

When to Use Resale

At what stage in the collection procedure can resale be most effectively used? While it is effective at every stage, right up to the time when the account is turned over to the attorney with instructions to begin suit, nevertheless the early stages of delinquency afford the best field for its use. At this stage the purchaser's realization of the benefits received from his purchase are keenest, and appeals based on that realization will have most effect. Second, he has not yet fully realized that his account is overdue and that he is delinquent. Payment is still the natural action for him to take.

The Critical Moment

There is in the history of every overdue account a critical stage when its future course hangs on very slight circumstances. A little thing may secure payment or may postpone it. The delinquent intends to pay, and has not yet fully realized that the account is overdue. If the creditor could know precisely when this stage occurred and could take just the right action, he could prevent an enormous amount of delinquency. In the case of most accounts and especially with customers who are not habitually and deliberately slow pay, this stage is reached just after payment is due. The first sign of slowness in payment is the best time for resale.

An "Inspirational" Folder Used in Resale

The Alexander Hamilton Institute makes notable use of

the principle just stated by employing a little "inspirational" folder as soon as the payment is overdue. This contains an interesting news item showing the value of the Institute course to its members. Fresh material for these folders is continually collected and kept on file. A paragraph of material similar in character, is used in one of the earliest collection letters.

Although the Harley-Davidson Motor Cycle Company secures payment in full from its dealers before the machines leave the company's hands, yet the dealer himself receives but 50 per cent of the purchase price down from the "rider," as the customer is called, and the balance in instalments. The company protects its dealers by reselling every rider for the period of a year, sending him news items, pictures, etc., about Harley-Davidsons that are giving service all over the world. This follow-up prevents unreasonable complaints by maintaining good-will, and incidentally is the means of selling other products handled by the company, but it also has a marked effect in keeping the instalments regular and prompt.

Doubleday, Page and Company use resale letters at the time their books are shipped, examples of which follow:

Dear Sir:

Our records show that the FARMERS' CYCLOPEDIA was forwarded to you as per your instructions a few days ago. Has it reached you?

In looking through the pages, you will undoubtedly find that the facts given are the result of much experience on the part of the editors who contributed to making this great series of seven books. One of the best indorsements we have and which we believe recommends itself to you, is the fact that the Cyclopedia has been adopted by the foremost Agricultural School in the world, as the basis for its courses in the various branches of farm work.

The enclosed bill is simply sent you as a reminder that there are two methods of payment. If you choose to pay cash, you may have the entire set for $27.98. On the easier plan you can pay at the rate of $3.00 per month.

We believe that the use and guidance of the FARMERS' CYCLOPEDIA will bring better results, and trust that through your satisfaction with it, we can supply you whenever you are again in need of books.

Yours very truly,
DOUBLEDAY, PAGE & COMPANY

Dear Sir:

Have you noticed what a great help the Coburn Manual is toward getting the best out of the seven volume set of the FARMERS' CYCLOPEDIA? This helpful Manual prepared by a man who has had twenty years of experience in scientific agriculture, has aided many. We know that you, too, will get lots of encouragement and help from it.

Are you aware that we maintain a Service Bureau for purchasers of the FARMERS' CYCLOPEDIA? This Bureau is in charge of men who thoroughly understand and appreciate all the difficulties and problems that arise in the agriculturists' work. If you have any problems on which you would like to receive advice, send them along to these men. The service is absolutely free, and is intended only to give you all the help we possibly can.

We receive many words of praise regarding the FARMERS' CYCLOPEDIA and Manual, but chief among our wishes is the desire that everyone be well pleased with the purchase. We trust that we can number you among those who have written us regarding their satisfaction.

Yours very truly,
DOUBLEDAY, PAGE & COMPANY

Collect While the Mental Image Is Fresh

After goods have been used or possessed for some time, the mental image of benefits received from them has faded, or is overlaid by fresh anticipations of benefits from other purchases. The cigars I have smoked are not so pleasant as those I am going to smoke. The goods unpacked and lying on my shelves are less attractive to me than when I first unpacked them and thought of how much they were going to bring.

Are you selling labor? Then the time to collect is while the purchaser has a lively mental image of the carpenters

with their saws and hammers, or of the plasterers whom he waited for and who kept his house in a turmoil, or of the painters and their ladders and brushes and the bridge of boards across the front porch. These things impress the purchaser with the amount of time spent on the job, and he knows the time is worth money.

Later, when the floor is covered with rugs and the walls with pictures, and the house has become a place to live in, the purchaser of the labor has lost in part the mental image of the things he bought, but he never loses the mental image of the pleasure of keeping his money as long as he can.

Still later, too, the plaster may crack a little and the paint may peel or blister. When time has given a chance for some dissatisfaction to arise in the purchaser's mind, he feels "justified" in withholding payment.

Many up-to-date sellers of labor and service obtain from the purchaser a signed statement that the job was completed satisfactorily. This varies from a simple slip to be signed, like a receipt for the delivery of coal, to a form showing the number of hours spent each day and the rate per hour. A manufacturer of engines, for example, uses the latter kind of receipt for installation and repairs. Two years ago, he changed the wording of the paragraph just above the customer's signature, taking out all technical language and making it the simplest possible statement that the engine was in good running order and that the customer authorized the company to bill him both for time expended and for materials expended as shown in the statement.

Since changing his wording he has not had one disputed charge and his collections have been far easier. In every case, he resells the service rendered, and also expresses the company's willingness to give further service. He secures payment, moreover, as soon as possible after the job is completed.

Does Resale Abandon the Creditor's Rights?

But does the adoption of the principle of resale imply giving up the principle that the money is the creditor's by right, and that he has the right to use force to secure it? Surely the fundamental fact is that the money is his, and not the debtor's, and that if payment is not made, legal redress will be sought. This is true, one may argue, whatever face may be put on it, and whatever fine words are used about it.

Forcible Methods Are Expensive

Yes, it is true, the good credit manager will reply, the argument is fundamental. But it is also true that going to law is not always the best way to get one's rights. If force is the only argument, the delinquent will delay payment until force is about to be used, with the result of a long credit period, and a large outstanding indebtedness, both of which are expensive. If force is the only argument, the customer will not be so likely to buy again, with a resulting large turnover of customers, and the heavy cost involved in soliciting and selling a large percentage of new trade each year. If force is the only argument, the volume of sale to each customer will be less, because the credit manager will be thinking of caution and safety rather than of selling the goods.

Force is the last, but not the only argument. It is like the appeal to arms, "ultima ratio regum," the final argument of kings, the last resort when diplomacy fails. If a credit manager can be found who in actual practice restricts his arguments to force and the threat of force, and if a majority of his customers, notwithstanding this, are paying without waiting to be forced, then other arguments are present *in their minds* which urge them to pay. If the credit manager can discover what those arguments are,

surely he will do well to employ them openly or by suggestion with his slow-pay or delinquent customers, so that at least he gives his customers active co-operation instead of making them do all the work of arguing themselves into payment.

Why Do Customers Pay?

Every credit manager knows the reasons that induce customers to pay, and to greater or less extent avails himself of their aid in making collections. First come those reasons which rise instinctively before the customer's mind, without requiring much thought.

1. He pays because he has the habit of paying, because he is used to making checks out at certain times, because he has a system—and the credit manager of the creditor house has a system—of bringing the subject to his attention.
2. He pays because he has pride in meeting his obligations and conducting an efficient business.
3. He pays because he has good-will for the house; he thinks, "I like to do business with these people, because they treat me right, and so I'll treat them right."
4. He pays because he knows he ought to pay, because it is a moral obligation.
5. He pays because he wants to avoid annoyance, and he knows he will be "pestered" with letters or collectors if he is slow.

Keeping a Good Reputation

If he thinks a little further, he pays to keep a good reputation and to protect his credit rating. He knows that the privilege of doing a credit business is a matter of life and death to him, because he is accustomed to pay for his

invoices in large part with the money received from the sale of the goods, and the 30 or 60 days' terms enable him to provide the cash with which to settle his bills. If he were driven to a cash basis, it would not be possible for him to buy enough goods to satisfy his customers; he would have to shrink his volume of sales, sacrifice his prestige and good-will, and reduce himself to a fourth-rate position. To suffer this from all his creditors would be to receive a death-blow. To suffer it from one of them would mean some proportion of disaster. Even to have a shipment temporarily held up because the credit man refused to check further orders for shipment until his indebtedness was reduced, would probably destroy the profit on those goods by keeping them out of his hands until the best market time was past. If he has a good reputation, moreover, he can increase the size of his orders without too much question from the credit man, and this may mean doing a big business at a strategic moment.

Getting the Right Goods

Besides securing the advantages of credit-buying, a good reputation allows him to deal in the goods he prefers to handle. No matter how "independent" he is, he has his preferences about goods, and so have his customers. If he gets into trouble with a good house, and tries to switch his orders to another equally good, he is likely to suffer an embarrassing investigation, thanks to the co-operation that exists among good houses. Perhaps he will be driven to take up a line of merchandise from a house that is less scrupulous about credit—and also less scrupulous about the quality of its line.

Credit, Goods, and Service

In general, also, he wants to stand well with a house so as to get service, not only from its credit department but

also from its sales and other departments. He knows that whatever favors it has to bestow will be granted most willingly to its "good customers"; and the same desire holds good as to his relations with other houses.

Prompt payment and a good reputation, then, enable him to secure credit, goods, and service from the house which is his creditor at the moment, and from other houses.

Paying to Secure the Discount

The wide-awake, up-to-date merchant, who can get the necessary capital, pays because he wants the discount. The very substantial bonus given for prompt payment is an obvious prize dangled before his eyes, and he wants to grasp it. He could use that extra 2 to 6 per cent very handily, and if it amounts to an extra 10 to 12 per cent in the course of a year, it may mean all the difference between making a profit, with interest on his investment and payment for his services, or working without salary and breaking even. The extra profit through taking discounts may save him from steadily digging into his capital, a process which brings nearer the day when the sheet of white paper is fastened to his door—the crêpe that proclaims the death of a business.

The Value of the Turnover

And the merchant who is a thorough student of business pays because he wants the turnover. He buys no more than he can sell, and he watches his perpetual inventory. He hustles his capital to market for a load of goods, and brings it back, stepping on the accelerator all the way. He works hard to unload the goods and free the capital and send it back for another load as quickly as he can. He knows that if his capital makes only one trip a year, or two in three years, perhaps he will not keep abreast of rising costs; while

if it travels four or five times a year and brings home a profit every time, those four or five profits in place of one or two will enable him to buy the best goods, sell at a price his customers will like, and still retain a larger profit for himself, as the reward of his superior efficiency. All this program of a rapid turnover is blocked if his payments are slow, because there is a limit to the credit manager's willingness to ship subsequent invoices while earlier ones are still outstanding on the books.

In the last resort, the customer pays because he must. But that is a long time off.

The Reasons for Payment—Summary

To summarize, the arguments with which the customer induces himself to pay are:

1. Habit, reinforced by pride, good-will, the sense of fair play, and a feeling of moral obligation.
2. The desire to avoid trouble.
3. The desire for a good reputation, which indirectly means a credit business, the privilege of handling the right line of goods, and service from all the departments of this house and of other houses.
4. The desire for the discount, which spells additional profit, and which may be his only salvation in the face of rising costs.
5. The desire for an increased turnover, as a means of doing a prosperous and growing and really successful business.

It is the opportunity of the credit manager to set these arguments to work on behalf of his house. Some of them mean payment "some time"—"in the long run." Some of them mean payment quickly. He can keep these arguments vividly before the customer's mind; he can "sell" the

advantages of credit and prompt payment, and when collecting he can "resell" them by a suggestive phrase or occasionally by careful explanation and urging.

The appeal to force, it is true, always stands behind and supports these other arguments, but it is not close to the customer's mind, and it produces its effects slowly. Other arguments and appeals can be used long before the appeal to force would take effect.

Enlarging Trade Outlets

The desire not only to "keep the customer," but to develop him into an ever enlarging sales outlet for the company, is the motive from which spring all resale policies. As the logical result of this point of view, some houses have established well-developed service or efficiency bureaus cooperating with both credit and sales departments and employing field experts who can go into a customer's house, show him just how to increase his sales, reduce his expense, finance his expense properly, and get on a paying basis—paying the customer a profit for his business and paying the creditor promptly for his invoices. This is taken up in Chapters XXVII and XXVIII.

Are Resale Policies a Needless Expense?

Does a painstaking care for the interest of the customer shown in all the operations of the credit and collection department really pay dividends? Isn't it simpler and less expensive to send out a couple of statements, a good sharp letter followed by draft, and then to turn the whole thing over to a collection expert outside of the house, and wash one's hands of it? This routine can be handled by the bookkeeper at small cost, while the credit manager can give all his attention to keeping undesirable citizens from getting any of the goods of the house.

The Cheapest Method

The experience of the best modern houses is that this "simple" policy is the most expensive one. Satisfactory relations with the customer pay big dividends, and the more intelligent the human interest displayed in credit and collection, the more satisfactory will be the relations with the customer.

No one who has been privileged to look into the private records of some of our foremost mercantile houses can fail in his admiration for the wise constructive attitude there displayed. And no one can talk with dealers who have benefited by this genuine friendliness, and who in return have given their orders year after year to the house from which they received not only merchandise and credit but service as well, without coming to believe that a constructive attitude and resale policies in the credit and collection departments are responsible for no small measure of the success enjoyed by these houses.

CHAPTER VI

THE QUICK "CLEAN-UP"

Methods for the "Short Run"

"I am interested in methods that will succeed in the long run," said a prominent manufacturer. "My credit and collection department must be reformed and put on a broad basis. I shall begin right away with every new customer that comes to me. But what shall I do with my old customers who have got into bad habits and keep me short of capital because they are so far overdue? I want also methods to be used with my established trade right away—methods that will succeed in the long run will be all right, but they may be too late to save me from embarrassment. I want also methods that will succeed in the short run."

This manufacturer was truly in an embarrassing situation. To judge by the standards of any sound collection system, many of his accounts were so far overdue that it was time to adopt stringent methods. But while this would get the money, it would almost certainly lose many of the customers. The manufacturer felt that his own lack of system in the past had been partly to blame. Instead of educating his customers into good methods, "selling them credit," and "reselling" them in the early stages of collection, he had carelessly "given credit away," used a lax routine that kept him apologizing for his mistakes, and in collection had used lifeless mechanical letters that his trade easily learned to disregard.

Many business men, both wholesalers and retailers, are in the same situation; they would like to reform, but how?

Moreover, nobody wants to confess that his past system has been defective, for it will increase his difficulties in collecting the money already on the books.

Getting on a Sound Basis—The Solution

The only way to solve the problem is to make a clean break with the past, to install a new system, and then to tell one's customers about it, laying all possible emphasis on the resale element in the situation. Suppose a manufacturer finds himself confronted with the unpleasant option of enforcing his terms or reducing the quality of his line. He can send out a letter to his trade whose accounts are overdue, explaining that in the face of an advancing market he can either raise prices, lower the quality of his goods, or ask frankly for their hearty co-operation in maintaining his terms. Perhaps he has already made price advances, and can point out that he wishes to avoid others. He may even find himself in such an uncomfortable position that it will be worth while to offer an extra discount for prompt payment within a specified time, and then to send out an urgent follow-up to reach the customer just before the time limit has expired. The difficulty with this method is that if it does not bring in the money, collections will be all the harder from these customers who have refused to respond to the powerful motives of self-interest and money-saving.

How to Handle a "Clean-Up"

The following plan has been found most successful when a "clean-up" of outstanding accounts has become necessary at the same time that a new system and procedure of collections is to be installed.

1. If the emergency is not very great, send out a letter thanking customers for their patronage, asking payment of their balance, and explaining the measures the house is taking

for their advantage. A thorough resale of the goods and service of the house can be included, and the appeal throughout can be made on the basis of the customer's own interests, without suggestion of any financial stringency. Such a letter will succeed in most instances with that portion of the trade which is really able to pay; because it carries the suggestion that the payment is being invested for the customer's benefit.

2. If the situation is a little more urgent, add to the foregoing an appeal to good-will and co-operation, and say that your past dealings have given you confidence that your present measures will be supported in the same spirit of good-will and co-operation that have always existed between you.

3. If the situation is still more urgent, speak more frankly of the problem that confronts you and awaken a slight fear that on his next order the customer may not receive the same values or service that he has received hitherto, unless he becomes more prompt in his payments and sends in the amount already overdue. This is a good situation in which to resell the value of credit.

4. But if the credit hold on the customer is so slight that he is likely to take his orders elsewhere, after receiving this kind of letter, and if the creditor's need of cash is so urgent that he must take some steps, then an offer of a cash discount may be advisable. A retailer may find it more to his advantage to offer some article out of his stock or specially purchased for the occasion as an inducement to clean up an old account.

5. One of the very best methods of treating this situation is to ask the customer to take a trade acceptance. (See Chapter XXVI, "Trade Acceptances.") The creditor can make this fall due at a definite time in the future, thus allowing the debtor perhaps a month more in which to meet the obligation. He may offer an extra per cent or more off the amount of the bill if the trade acceptance is used, frankly explaining

that he can afford to do this. This method is businesslike and does not necessitate making admissions that reflect unpleasantly on the creditor's financial condition, because the trade acceptance is generally regarded as an emergency measure but serviceable also under normal conditions.

Having made a start toward a "clean-up," special letters should be written to meet the succeeding situations. One follow-up should be prepared to be sent after a suitable interval to customers who are not taking advantage of the offer made or have not replied at all to the first letter. A strong appeal to the sense of fair play is the best measure to adopt here, while in the case of small accounts some endeavor to make the customer feel a little ashamed of himself will be serviceable as an element in the letter.

Preventing a Relapse

A "clean-up" of this kind will go far toward relieving the immediate needs of the creditor. But how about the future? Will not the former lax habits of his customers reassert themselves after this unusual exertion? The answer is that he must keep after them by means of courteous, educational measures, referring occasionally to the points that his "clean-up" letters have established.

One wholesaler has found it advisable to attach to all invoices sent to customers who have been slow pay, a printed sticker containing the following words: "In view of the business conditions now prevailing as explained in our correspondence, may we respectfully ask your co-operation in prompt settlement of the present invoice. This firm will accept your action as evidence of your good-will."

Another manufacturer who was unwilling to appear to be dunning his customers before the account was due, placed a similar sticker on the first statement, and reports not only unusually prompt payment, but entire absence of offense.

To those not responding to the first or second statement, a rather long and friendly letter could be sent, asking them to take a note or a trade acceptance in view of the special market conditions now prevailing. Since the whole collection procedure is being made more urgent, the letters, stickers, etc., must be more explanatory and must carry a tone of unmistakable friendliness so that the customer will understand the general nature of the step taken, and will not feel that this unusual urgency is directed at him personally.

Further suggestions for collection methods that will succeed "in the short run," as well as "in the long run," will be found in Chapters XV-XXV, and XXXV-XXXVII, on the psychology of collection, procedure, and retail collections.

A Lesson From a Country Editor

"But," says the retail merchant, or his big brothers the jobbers and manufacturers, "this is all theory. These reforms are nice to talk about but they can't be put into practice."

On the contrary, modern business affords so many illustrations of splendid success in bringing careless customers to the right-about-face that it is hard to select the best examples. The two following are given from among many that came within the writer's own experience, because they represent success in the most unlikely cases.

Is there any man whose traditional weakness in collections is greater than the country editor's? If one is to believe all the jokes at his expense, no one ever pays him for past subscriptions, while a new subscriber is welcomed with extravagant gratitude. The editor even adds to his own bad reputation and "fouls his own nest" with humorous items about the dozen eggs or the basket of potatoes which someone has paid him on account. He puts on his front page items like the following: "This week eight brand new subscribers,

princes of the earth, came in to take the vows of fealty and received in return a certificate which permits them to peruse our records for a year and browse on the news gleaned from this little spot of the world. Our welcome for you new readers is as true and hearty as though you came in company with a myriad more. Gladly do we enter your names on our cards and escort you to a place in the circle of light."

A few years ago the writer was asked to investigate collection methods for the benefit of a state association of newspaper men. Among the energetic and businesslike editors who told of their experience, was one who had been more than commonly successful in "taking the bull by the horns" and changing at one blow from credit to cash.

"How did you do it?" I asked him.

"Well," he answered with a smile, "I sent them a nice taffy letter. It was the most successful stroke of business I have used in twenty-three years. This single letter brought me in nearly a thousand dollars and practically every 'live account' paid one year in advance. I was able to buy a new press with the money. I don't know what made it succeed as it did, except its novelty and the fact that it hit the spot."

The Thousand-Dollar Letter

Here is the letter that brought in the money and made friends in the bargain. The reader may judge for himself whether its appeals to good-will, pride, and self-interest can be adapted to his own collection situation.

Dear Subscriber and Friend:

I am putting up a proposition to you that will benefit you really more than it will me, if you accept it, and if you will read this letter through you will see how you are the one who will be benefited.

I know you are willing to do your share toward making The Press a better paper. You want more news in it, though many of you say it's the best paper in the county now. It is by such co-operation as I am now asking that you can help make it more newsy and consequently a better paper.

I am sure you will appreciate the situation. We want you to have a better paper in 1918 than ever before and we do not want to stop there; we want it better every year. We want it said that we have the best paper in Northern Wisconsin, and that paper is The Press.

My proposition is simply that you take advantage of the present and pay your subscription at least one year in advance, or more; and the more years you pay for, the more you will gain.

To speak candidly, we are proud of the names we have on our subscription list, for they represent the intelligence and the integrity of this whole community.

If these same good and loyal citizens could take one glance at our books they would be appalled at the amount of money that is due us on subscriptions to this paper. They are small amounts individually, ranging from 50 cents to $2 or $3, marked up against men and women whose words are as good as their bonds.

But we cannot pay our own bills with the honor and the integrity of our subscribers. We put up the cash.

I want to make some improvements in our equipment, and if the money (there is now over $2,000 past due) is paid in at one time it will do us a whole lot of good—much more than if only a few subscribers pay in driblets scattered through the year.

Will you pay up your back subscription? Will you help us make The Press "so much a better paper that there will be no comparison"?

Your subscription was paid to .....191...
$.....will pay you to ..... 1st, 191...
Send check, draft, or money order. Do It Today.
Very truly yours,

A Reformed Grocery Business

Two boys of nineteen and twenty-two years respectively were presented by their father, a prosperous grocer in a Wisconsin city, with the stock and good-will of a run-down grocery store which he had purchased in another part of town. A thriving competitor was located across the street. "See what you can do with it," he told them. The youthful merchants decided to begin on the right basis. Their capital was limited, but they had the doubtful privilege of attempting

to collect the ancient accounts of their predecessor. While they were about it, they determined to change their terms from 30 days to two weeks, because an analysis of their possible trade showed that it was mostly made up of railroad employees who were paid up every two weeks. They issued this letter to all the families in their possible trade territory:

Dear Madam:

The new firm of Johnson Bros., Grocers, at the corner of Park and Kent, offers its services to the families in this vicinity.

A pleasant, clean, wholesome-looking store will be our first endeavor. Come in and see how well we look after our remodeling.

Prices a little lower than you find elsewhere, based on our first-class business methods. A slip will accompany every purchase made on a charge account and your bill will be sent you promptly at the end of every two weeks, the time when you find it most convenient to pay. This will prevent the annoyance of having a large bill to pay at the end of the month, and is a service we are sure you will appreciate.

Standard lines of groceries that you can trust.

Courteous, prompt, *intelligent* service.

Just as an example of our endeavor to make this the best grocery store in this part of the city we want you to *come in* to our Saturday special sale and please meet us and get acquainted. We want to know you and to be able to serve you.

Yours truly,

For all customers having past-due accounts a special letter was issued practically the same as the foregoing, but urging them to "pay up now or come in and talk it over with us. We know that we have your good-will in our new business and we want your help in giving you a first-class grocery store in this part of the city."

These letters were backed up by vigorous advertising of the Saturday special sales which were made the occasion for credit interviews with all new customers. Within a year the store was in a strong financial position and had a thriving patronage. Excellent returns were received from old accounts and the change to bimonthly payments was so successful that it was presently followed by many other merchants.

CHAPTER VII

SELLING AND RESELLING CREDIT

"Credit Is More Than Half of Collections"

The strength of the credit man in collections is due to three reasons: (1) he can avoid selling to the class of customers most likely to prove delinquent; (2) he has many opportunities to educate customers in better habits of payment; and (3) his prestige is so great that customers are desirous to retain his good-will. He deals in a commodity, credit, which all are eager to get and which all fear to have withdrawn from them.

The methods by which a credit man judges the reliability of customers belong properly to a discussion of credits, and are touched on only incidentally in this book.

This and the following six chapters discuss at length the second element of the credit man's strength, his opportunities to educate his customers in better habits of payment before serious delinquency arises. In the language of the trade, he can "sell credit." They also illustrate the methods by which he uses his prestige in collections, i.e., how he "resells" credit.

The Diplomacy of Business

The credit manager is really in the best position to sell credit when his house is the largest single creditor of his customer. On this house the customer is genuinely dependent; if it does not let him have the goods, because his indebtedness to it is already too large, he is face to face with ruin.

The credit manager in such a position carries a heavy burden. His operations may run into millions of dollars a year; merchandise amounting to very large figures has been

shipped on his judgment, based on evidence which to the uninitiated would seem exceedingly hazardous. His problem is enormously greater than that of finding some appeal which will bring a reply; when he has secured his reply, his problem may be only begun. His patience must be inexhaustible, because he knows better than the customer the serious consequences that would follow an actual rupture of their confidence. In his hands lie not only great sums of money but the well-being of many business men dependent on him for credit, on whom in turn rests to no small degree the prosperity of whole communities.

But the first rule of the modern credit manager is: "Ship your goods"—do not be overconservative, or you will lose money for your house. Then his problem is to safeguard the credit risks he has undertaken. He must be inexhaustible in resources for meeting the countless difficult situations that arise, and for strengthening his hold on the customer.

The confidential correspondence of credit men in this position forms a record of the inner diplomacy of business. It shows them mindful on the one hand of their obligation to maintain their terms as strictly as may be, but on the other hand ready to grant extensions of time and arrange for part payment rather than "break" the merchants who are practically dependent on them. In so doing, however, they must continually keep alive in a customer his sense of obligation and appreciation for the treatment accorded him, lest he become careless and abuse his privileges, with the result of destroying the whole delicate fabric of confidence which makes such accommodations possible. Only the man of real ability and character is worthy of receiving these privileges.

Can Credit Be Sold?

Sometimes the credit man in discouragement declares that credit is the cheapest article on the market; that it can

be had from anyone for nothing. But the history of the great merchandising houses of America answers decisively that credit can be sold and that men are found who are willing to pay the price.

The Price of Credit

The price of credit is a reputation for paying one's bills. "Anyone can have goods of me," announces the merchant, "provided he has the price." And anyone can have credit, provided he has the price, in the form of a good record, present ability to pay, and willingness born of his understanding of the value and obligations of the credit privilege.

The subject is by no means exhausted in this chapter and the work of the credit men in collections is further treated in Chapters XV-XXV and XXIX, on the psychology of collection, procedure of collection, and system for a collection department.

The difficulty in the sale of credit lies in being sure the customer is really "sold" credit. His desire to trade with a house may be caused only because he wants the goods, and he may never care whether or not he obtains credit again. He has been sold the goods; his desire for them was aroused. But did he want them enough to pay cash for them? If so he wanted to buy only the goods; if not, he wanted also to buy credit.

"Arouse Interest"

The credit man in making this sale of credit must follow the lines of good salesmanship. Why should an applicant be willing to pay a price for credit if he has never become interested in it? This mightiest force in the business world, this structure built on a wonderful fabric of confidence and mutual understanding, this system that holds the civilized world securely up, but that would be shattered like a house

of cards if confidence were destroyed, is unknown in its value to many of the men who blindly entrust their fortunes to its operations. The banker knows its nature; the wise credit man has come into contact with it and has had his imagination quickened by the experience; but many another man is unmindful of the delicate adjustment of the forces that dominate the mercantile world, and is correspondingly lax in his sense of obligation to the structure of which he is a unit.

By virtue of his superior insight, the credit man can arouse the interest of his customers in the operations of credit, the necessity of confidence, the necessity of paying bills promptly, and above all, the value of the credit privilege to the customer himself.

"Create Desire"

But when interest is aroused the credit man must take the next step in perfecting the sale. He must "create desire"—desire to be numbered among those worthy of receiving credit. Gratification of this desire is in part a gratification of pride in having a good financial standing, but it is chiefly a gratification of self-interest through the ability to profit by the value and conveniences of credit.

"Secure Action"

The credit man, unlike the salesman, does not secure his action in the form of a signature on a dotted line, nor does he receive money over the counter and watch the customer take away the goods. His sale is made when the customer has been made willing to accept the obligations as well as the privileges of credit; when he is willing to limit his purchases to what he can reasonably expect to take care of, when he is willing to conduct his business so as to dispose of goods rapidly, collect for them energetically, and pay for them promptly, instead of allowing them to pile up on

his shelves and then asking extension of time from his creditors. This is a sale that may be made progressively over a period of years. After all, it is not so different from the operations of the salesman, who has recently been defined as the man "who can get a dealer to order goods without asking him to buy."

The Best Time to Sell

When an applicant first comes before the credit manager he expects an investigation of his standing, and this accordingly is the best time to sell credit by arousing the customer's interest in the subject through conversation. Some men are wonderfully skilful in conducting the talk along the lines of their past experience, telling anecdotes about customers both in the past and present, examples of both good and bad habits, in a way that makes a customer feel on an equality with the speaker, and plants the seed of an appreciation of credit that will bear fruit in time to come.

When applicants for credit do not come personally before the manager but are approached by the salesman or through the mails, the manager's opportunity for conveying education on the subject of credit is in his letters granting credit, refusing credit, holding up the order pending investigation, asking part cash or draft with the bill of lading on the first order, or discussing the several points that arise in connection with the information desired. If the information has come direct from the customer in the form of a property statement or a personal letter, his advice can be characterized by greater frankness and fulness.

Selling Credit to Established Customers

After relations have once begun, the credit manager has many general opportunities to send printed matter, booklets, articles, etc., on credit. But numberless special occasions

arise which present advantages for the discussion of points connected with credit. These are set forth later in the present chapter.

Welcoming a Good Customer

An applicant for credit whose rating is high in the books of the commercial agencies, and concerning whose standing a salesman has a satisfactory report at the time of the order, would have his first order shipped without further investigation. Great numbers of orders can usually be passed on by the credit manager with very little delay. Perhaps the order is relatively small and can be shipped merely on the basis of the agency rating; or it may be the practice of the house to pass all orders up to a certain amount on the salesman's recommendation, which is possible only where the salesman has been specially trained or has been brought fully into touch with credit policies. The credit manager may have received from the salesman or from the customer the names of other large creditors, and may be satisfied to ship on this basis; or he may acknowledge the order and proceed to fill it, securing the necessary information from the other houses before shipping. In any case it is advisable to be perfectly frank in allowing the customer to know that the operation of allowing him credit has not been slighted.

The following is a letter that may be sent on receipt of the first order. It asks for information on the basis of which credit relations may be established:

Dear Sir:

Your order of May 14 has been received, and has been entered for shipment on our usual ten-day schedule.

This is, we believe, our first dealing with you and we take pleasure in welcoming you and in showing you our appreciation of your business. The information afforded by the agencies entirely warrants our shipment of this first order, but we do not doubt that you would prefer to come to a more personal understanding with us on

the basis of which credit may be extended in the amount which you may require. Accordingly, we are enclosing the usual property statement, but we should be glad if you would write us in addition a personal letter stating what your business opportunities and expectations are, so that we may find ourselves in a position to be of service to you.

We shall do everything possible on our side to increase personal acquaintance and confidence that may result in mutual advantage.

Yours truly,

Short Letters on This Subject

There are many occasions when such a letter as the foregoing would be advantageous, just as there are many in which a shorter letter would be preferable.

Where the investigation will delay the shipment of the order the customer should be so informed.

CREDIT AND COLLECTION DEPARTMENT

Dear Sir:

Thank you for your order of May 14 which has just reached this department.

It will be delayed a few days pending our usual routine which we hope will not greatly inconvenience you.

Very truly yours,

Dear Sir:

You have been kind enough to favor us with an order which we shall endeavor to handle in such a manner as to merit your approval and be the means of further extending our business relations.

We believe that we have as yet no definite understanding concerning the opening of an account, but we assure you that in every businesslike way haste will be urged toward this end so that your order may be cared for as soon as possible.

Yours very truly,

Reselling the Goods

In case the information is inadequate to justify the shipment of the first order on full credit, it is logical for the manager's letter to increase the customer's desire for the goods at the same time that a hope is held out for better relations on the basis of better information. Not being able to sell credit, he should resell the goods.

Dear Sir:

We thank you for your first order of November 10 to be shipped on open account. We take pleasure in welcoming you as a customer of this house and we believe the goods you have selected, which we note comprise some very nice values, will be a means of profitable business to you.

You doubtless desire these goods for early use so that it would inconvenience you should we hold them pending the securing of necessary information which in the present instance we do not seem to possess. Accordingly we suggest that you send us by mail or wire, cash for the amount of half of the bill or instructions to allow the shipment to go forward with sight draft attached to the bill of lading. Either of these methods will be entirely satisfactory to us and will place the goods in your hands in time for you to make the best use of them.

In the meantime we shall prosecute our inquiry as rapidly as possible, and to this end, we enclose the usual form of property statement which we would ask you to fill out in detail. Please write us also a frank personal letter concerning your business expectations, etc., which will help us materially in becoming better acquainted.

With best wishes for your success.

Yours very truly,

CHAPTER VIII

REFUSING CREDIT COURTEOUSLY

A Tactful Refusal

A house doing business entirely by catalogue when refusing credit tactfully ascribes its action to the scanty information afforded by agencies and urges the customer to deal for cash, pointing out that in this way a basis for credit relations may be established.

Dear Sir:

We thank you for your courteous letter enclosing an order to be shipped on open account. Our soliciting orders through catalogues causes us to experience considerable difficulty in obtaining needed information, so that consequently in very many cases we are obliged to depend largely upon commercial agencies for a credit basis, even though we are unable to guarantee their correctness.

In the present instance we are very sorry to find the mercantile report somewhat unfavorable, so that until we can become better posted we cannot, according to our conservative methods, offer you a line of credit. We therefore hope that you may feel disposed to accept our cash terms for your immediate wants, and we believe a careful consideration of our circular offers will enable you to see your way clear to do this.

We think we can succeed in becoming better acquainted in this way, and we trust such an arrangement may prove temporarily satisfactory. We hope that you will excuse the unavoidable delay in replying to your letter.

Yours very truly,

Refusal for the Customer's Own Good

A merchant tailor in a small Illinois city developed the unfortunate idea that a stock of furnishing goods would add to the profits of his business. On the basis of the information furnished and for the tailor's own good, the credit manager turned the order down; but the tailor unwisely persevered. He discovered another credit manager who was not so high-principled, and laid in a small stock. But his line was not large enough to enable him to compete with dealers in furnishing goods in the locality. For two years the scanty profits of his tailoring business were drawn on to help support his furnishing business; at the end of that time he passed through bankruptcy, which he could have avoided by taking the advice given him by the first credit manager.

Dear Sir:

It gives us pleasure to receive your letter of June 18 informing us that you are in the tailoring business and desire to put in a stock of furnishing goods. We are satisfied that our class of merchandise is what will be desired by your trade, but we take it from your letter that you are without capital and would expect us to put in your stock for you.

We regret that we are not in a position to do so, as we are strictly a one-price house, only making shipments to merchants who have sufficient capital invested in their business to finance it properly. We would suggest your arranging to have somebody in partnership with you who would be able to contribute sufficient cash to swing the furnishing goods department.

We trust you will see your way clear to make some arrangements to put in a stock of furnishing goods.

Very truly yours,

Dear Sir:

We have before us your letter of June 21 which is in reply to ours of the 20th.

Before answering your inquiry regarding whether or not we are in position to extend you credit this season, we should be fully advised regarding your affairs. We are satisfied regarding your character, good intentions, etc., but we desire information pertaining to your financial condition.

This information upon the blank we enclose will be appreciated.

Very truly yours,

Dear Sir:

We thank you very much for the frank statement of your affairs and regret if it has taken any of your time in getting it up.

We also regret sincerely that after looking it over and giving the matter our very serious consideration we cannot see our way clear to extend any credit; in fact, we would advise you very strongly against putting in a line of furnishing goods until you have more cash capital with which to do it. We think it would be hazardous, and you are doing so well you ought not to do anything to hurt your present business.

Furnishing goods would without question add to your sales and profits, but you cannot get the right lines unless you have sufficient capital to pay for them when due. You may get plenty of houses whose lines you would not carry to extend you credit, but we think it would be much better for you to go ahead another year, when you will no doubt be able to accumulate sufficient capital to justify you in starting in on a small scale, which you could very easily do.

We regret our inability to meet your wishes; we should be very glad to do so if we could consistently.

Yours very truly,

Asking Additional Capital

In another instance a merchant willingly supplied the information requested, but this was so unfavorable as to cause the credit manager to write him expressing appreciation of his attitude but pointing out that were his order filled, he would be doing nothing more or less than gambling on the weather. Additional capital was an absolute necessity. This the merchant was able to supply and the goods were eventually shipped.

Dear Sir:

The information which you mailed me on April 27 has come to my desk; thank you for the promptness and fulness of your answer.

Evidently your resources bear a dangerous proportion to your liabilities, since you are, as you frankly state, somewhat undercapitalized. We appreciate that you are just beginning business, and that your favorable location and the other circumstances in your favor make it probably only a question of a short time before you will be well established. But in the meantime we should be doing you an injustice if we did not point out frankly the dangers of such a position. If your sales materialize as you have reason to expect they will, you will be safe; but if a bad season should intervene, you would be seriously involved. Since you have not the experience of previous sales to guide you in your estimate of your needs for the present season, your only guide must be the amount you can stand to lose, making proper allowances. Evidently in the present case this is decidedly small.

If you can secure an addition to your present capital, say of $1,500, we shall be glad to let the order stand, though we should advise cutting down the item of overcoats to one-half its size for present shipment, reserving the remainder, if you wish, for a later date in case your locality uses less of these goods than your order estimates.

In the meantime, it is a pleasure to indorse your position of co-operating fully with the house with which you deal, and to assure you that we shall be glad to give you all the help, in advice as well as in terms, which we consistently can.

Very truly yours,

Asking Cash with First Order

A manufacturer dealing with grocers was obliged, following a reorganization of his business, to lay down very strict rules covering all first orders. The explanation was:

Dear Sir:

We thank you for your order through our Mr. Arnold. While we appreciate the business we suggest that in the absence of financial information that would help us to establish a credit for you, this order be sent forward C. O. D.

Our Directors have laid down a rigid rule that all accounts without an established credit should be sent forward on a C. O. D. basis. When the necessary information—that is to say, a statement of affairs or balance sheet—is received and a credit established, then we can, of course, extend the regular terms of 30 days.

You will understand, of course, that this is merely a precautionary measure applying to all with whom we do business, and we trust you will appreciate the spirit in which this letter is written. We are in the same relation to our dealers as you are to your customers, and if you look at it in that way I am sure you will understand our position.

In your case, it is probable that we could establish a credit to an extent sufficient for your needs. Meanwhile in order to save time we would suggest that you allow us to forward this order C. O. D., and we will, of course, allow you a cash discount of 2%.

Please use the enclosed card.

Yours truly,

ACCOUNTANT

A certain house dealing with many unrated merchants handles in consequence a large volume of cash transactions, requiring part cash in advance and the balance on delivery. If a customer overlooks these terms the following letter is sent.

Dear Sir:

We appreciate the order you were kind enough to send us, which we hope to be able to fill and ship in accordance with your wishes.

However, as you have overlooked or misunderstood one requirement of our printed terms, we feel obliged respectfully to call your attention to it.

In doing a very large C. O. D. business, very frequently with customers of whose financial affairs we have not been advised, we have found it necessary to ask an advance payment with each C. O. D. shipment of enough merely to cover the freight or express charges and insure delivery. This sum together with the regular discount we deduct from the amount of the invoice, and the balance only is collected through your nearest bank upon arrival at your station.

We believe if you will consider the position in which we are placed, you will comply with our request, and we assure you that your order will receive every possible care and attention.

Yours very truly,

Occasionally one of these customers sends in an order asking credit, believing that his standing as a cash customer will influence the house to give him credit standing. The following courteous letter is sent him as a means of educating him concerning the basis on which credit is granted.

Dear Sir:

Thank you very much for your order of March 8, which we have just received. On referring to your account we notice that while your past transactions have been very satisfactory to us, yet it has been your custom to accompany each order with a remittance. Indeed, there is now standing to your credit a balance of $425. We are not, however, fully advised as to your credit standing.

The rules of all responsible wholesale houses require that some information be given before they can offer time; this can generally be obtained most speedily from references. If you will be kind enough to name for us your bank or wholesale houses, we will make the necessary inquiries as quickly as possible.

We believe the results will be satisfactory, and regret only the unavoidable delay to your order. We await your instructions.

Yours very truly,

A large hardware jobber was asked for credit by a merchant whose stock on investigation was found to be covered by a mortgage. Instead of turning the order down flatly or even simply refusing it courteously, the manager was so favorably impressed by the merchant's personal ability that he offered to ship the goods provided the customer would promise to discount every bill. If this were impracticable, he suggested that 60-day terms could be allowed provided the account could be guaranteed. The courtesy and reasonableness of the letter influenced the customer favorably, a guarantor was provided, and the goods were shipped.

Dear Sir:

We have received and thank you for the order recently given to Mr. Daly, which will have prompt attention immediately upon receipt of your reply to this letter.

All authorities, including Mr. Daly, speak of you very highly in every way, and we have entire confidence in your personal qualifications and do not question it is your firm intention honorably to discharge your obligations. But there is a mortgage on your stock of goods which operates as a first lien in favor of the mortgagee and serves as a menace to other creditors. Our observation, covering an experience of over half a century, has been unfavorable to the extension of regular credit terms under such circumstances, and we want to ask if it will not be agreeable to you to accept our goods, until this mortgage has been discharged, with the understanding that each bill shall be paid promptly within ten days of the date of the invoice less the 2 per cent cash discount. Upon being advised that these terms are satisfactory we will promptly forward the goods.

If for any reason you find it impracticable to accept our shipments on this basis, we could arrange to give you 60-day terms and liberal extensions when needed, if you will have our account guaranteed by some relative or friend whose financial responsibility is strong and above question. Should you decide to act upon this latter suggestion, the enclosed blank will be found well adapted to the purpose. You will notice that the guarantor may limit his liability to whatever

figures are inserted in the blank. Your signature as a witness to the guaranty would be proper.

If the guaranty is sent in, please give us all possible information as to the address, occupation, financial responsibility, banking references, etc., of the guarantor.

We trust this slight delay will cause you no inconvenience, and we await your response.

Very truly yours,

CHAPTER IX

INFORMATION FROM THE CUSTOMER

The Property Statement

Among all the various sources of credit information, only two can be said to have direct effect on the customer, to increase his interest in his credit obligation. These are, first the report of the salesman, who usually asks the customer some questions even though he may get the majority of his data from outside sources, and second, the information from the customer direct as given in the property statement or in correspondence. The customer should not be allowed to feel that the formalities of giving credit are empty of the personal quality. Character and personal ability are such important assets as even to outrank capital. Consequently it is a personal compliment to grant an application for credit, and there is every reason for making the applicant feel it as such. A good plan, therefore, is to ask the applicant to write a full letter setting forth his business expectations, and asking the manager's advice about any points he may be willing to mention. If he sees the credit manager face to face, an interest in his personal character can easily be shown and the same is true if the salesman or a representative of the credit department calls on him.

Showing Where His Interest Lies

In all his campaign on the subject of credit education, the credit man should take pains to appeal to the customer's own interest and not merely to his obligations. The customer is very little concerned with the general welfare of the financial

world, but he is very much concerned with overstocking or higher prices in his own business. What they mean to him if he does not pay promptly is simply that he is unable to get fresh goods at the best market season, because he has already reached his credit limit. But why has he a credit limit? For his own protection, as much as for that of his creditors. If his orders are held up, or if he is asked to reduce them temporarily, it is because he has already loaded himself up with as much goods as he can dispose of during the current season, and to take more would be simply to invite disaster. If the channels of his business are already clogged with merchandise, the remedy is not to pour fresh merchandise into them but first to clear the channels by a sale at reduced prices, and thereafter to buy closer to his needs and push sales harder. The very heart of the credit relation is co-operation. What is to the interest of one is to the interest of all; it cannot be otherwise.

Meeting Objections to the Statement

When an objection is raised by the new applicant to supplying credit information, explanation can be made on the basis of the customer's own interest and on the general experience of the house. "It has always been our experience," writes one credit manager, "that information received from the customer direct is more detailed and personal and consequently gives us a better idea of him than if we were obliged to rely entirely on outside sources. Allow me to say frankly that this is very much to your advantage, and that we are glad to have it so, because your ability to conduct your business is without question your principal asset, and we can form an idea of this that is fair to you only by the frankest correspondence, preferably by a personal interview. If you find this latter possible at any time, we shall be most heartily glad to see you in our office. Bear in mind that

you are privileged to come to us at all times with the same frankness that we are now showing in coming to you. I trust we shall have many occasions for showing our goodwill by suggestions that will result to our mutual profit."

An Interesting Correspondence

Thanks to the unwearied efforts of good credit managers both as individuals and through their various associations, most customers understand the advantage to them of filling out property statements. But many merchants are totally unable to make satisfactory statements because they keep no books worthy of the name; others are unwilling to take the time required. In the interesting case represented by the following correspondence the manager impressed the importance of the credit relation on the customer's mind by patient, courteous explanation. The first letter sent on receipt of the order shows the wholesaler's appreciation of the new business.

Dear Sir:

We are in receipt of the handsome order you kindly gave Mr. Marsh, and the goods are being prepared for August 15 shipment as directed.

Mr. Marsh informs us you will shortly open a new store and have $5,000 cash, and expect to put in a stock of about $10,000. We do not quite understand whether this $5,000 is all your own money or if part of it has been borrowed. We would appreciate your advising us regarding this matter, so that our account may be opened understandingly.

We presume Mr. Marsh explained our terms on an opening bill; namely, that we expect one-half cash in advance of shipment where sufficient information is furnished to make credit for the balance of the order. We therefore trust you will send a check for approximately $450 at your convenience, and of course on this amount we will allow an extra 1 per cent in lieu of terms and dating.

We thank you for your early reply, and wish you the greatest possible prosperity in your new venture.

Yours truly,

As no reply was received to this letter the manager wrote repeating the points originally made. The customer failing to reply to this letter was written again as follows:

Dear Sir:

We greatly regret to learn we do not seem to have received a reply to our letter of July 27, asking you for information regarding your affairs, as well as for a remittance of $450 to apply on the order recently placed with Mr. Marsh.

As he undoubtedly explained to you, our arrangement on opening purchases is one-half cash in advance of shipment and a reasonable dating on the balance, where sufficient credit information is given to justify the extention of credit of such an amount. As yet, we do not seem to have any information regarding your affairs as a basis for credit, and therefore we trust you will write us promptly.

Thank you for your prompt reply.

Yours truly,

In the meantime the merchant had written the wholesaler an angry letter asking why his fall goods were not shipped and demanding that this be done immediately. The credit manager's reply points out that the customer is losing time in not complying with the request for information, but his letter is as courteous as before, though it is more definite in tone.

Dear Sir:

We are in receipt of your letter of August 27, asking us to make shipment of your fall goods as soon as possible. We presume by this time our letter of August 27 has reached you, reminding you that our opening terms, as also explained in our letter of July 27, are one-half cash in advance of shipment where certain credit information is furnished to enable us to extend a credit of the balance of the order. We therefore trust you will send a prompt check as requested.

We, on our part, will promptly take up the matter of obtaining information from your references, but as this of course takes time, we would much prefer to have you yourselves advise us how much you have incorporated for; what part of this amount is paid in in cash; how much stock you expect to carry, and such other information as will enable us to open the account understandingly. As you yourselves must know these various matters better than any outside party, we feel you are the best ones to send correct information and will thank you for a prompt reply.

We wish you the greatest success in your new venture.

Yours very truly,

On September 4 the customer, whose goods had been ordered for August 15 shipment, sent another peremptory demand for the shipment of his goods, giving the names of other houses who had shipped to him and saying that he considered this a basis for credit extension. The manager, however, held to his position in the following letter, which at length brought the desired letter and the goods were shipped.

Dear Sir:

We are in receipt of your letter of September 4, which we regret to see does not contain a check nor any information as a basis for credit.

We have written you three letters, namely, on July 27, August 27, and September 5, explaining that on an opening bill our terms are one-half cash in advance of shipment where sufficient information is given to justify a credit of the remainder of the order. You have given us no credit information whatever, and unless you do so we shall, of course, expect a remittance in advance to cover the amount of the entire order.

We presume the firms to whom you refer have shipped their first orders. In that case they would have no experience whatever with you, and as you yourselves must know more about your affairs than outside parties, we prefer to obtain this information direct. We trust you will, therefore, promptly comply with our previous suggestions, and send the information and half cash, or send cash to cover the entire amount of the order.

Thank you for your early reply.

Yours very truly,

The important consideration in this story of actual experience is that the credit manager suspected this account and wished to protect himself against future slowness in payment by being unusually careful in introductory relations. The sequel showed that his judgment was well-founded. The merchant's stubbornness and carelessness speedily got him into difficulty; but the credit manager's firm grasp on the

reins saved the situation and the merchant eventually handled his business with a new regard for the credit obligation. It took two years to "sell credit" to this man, but at last the sale was accomplished.

Demanding Information

The hardware jobber above referred to received an order from a customer whose affairs he judged to be in a shaky condition. While not feeling justified in holding up the order, he nevertheless wrote a very firm letter demanding full information and pointing out that the merchant's refusal to supply the property statement would operate against his own best interest. The manager went so far as to disclose to the customer the serious information he had received.

Dear Sir:

We thank you for the order recently given to Mr. Oaks, and shall immediately forward the goods.

Nowadays it is the practice of nearly all merchants to submit at intervals of not exceeding a year, statements of their financial condition. Sometimes these reports are made through the mercantile agencies and sometimes direct to the wholesalers. So far as we can find you do not appear to have given this information to anyone and therefore we lack the data upon which to form a positive opinion as to your financial condition. Mercantile authorities speak well of you in a general way and we believe you are entirely responsible. If it had been your custom to pay your invoices promptly or to discount them, favorable information of that character would be a satisfactory basis for such credit as you may require of us; but when you so frequently permit our invoices to run beyond their maturity before settlement we feel that as a reasonable business proposition, we are fairly entitled to a closer knowledge of the situation. If your financial affairs are in a creditable condition (as we believe them to be) you should not hesitate to take us into your confidence. Any report which you may submit to us will, if you so instruct, be held as strictly confidential and you will find that the better acquaintance between us thus brought about will be beneficial to yourselves as well as to us. It hardly requires argument to support the proposition that when a merchant frequently finds it inconvenient to pay at maturity, a frank

disclosure of his financial condition, if his affairs are on a substantial basis, will result to his advantage.

If your merchandise has not recently been inventoried, your conservative estimate of its value will answer. Precise and complete figures of the indebtedness are desired, but your books will enable you very quickly to give the information requested in our letters of August 10 and August 20. We again ask if you will not kindly let us have at once the brief report suggested by the printed blank enclosed, and assure you your prompt and favorable consideration of this request will be much appreciated.

Our monthly statement of your valued account showing overdue items to the amount of $684 is enclosed. Kindly let us know your pleasure concerning them.

Please accept our best wishes for your continued prosperity.

Yours very truly,

Handling an Extension

When the credit manager has made up his mind that the customer's failure to pay is due to his need of the money, he may make use, as does the following correspondence, of his knowledge of local conditions to appeal to his customer's confidence and to get him to respond to an offer of an extension of time.

Dear Sir:

We have received no communication from you in reply either to our statements or our letter of January 31.

We believe that our previous statements must have been overlooked by your clerks, as we well know what pride you have taken in the matter of prompt payment. We have always been glad to have you take our cash discount and on the basis of past relations have been able to give you a more liberal discount than we could afford to allow smaller customers. Won't you investigate this matter personally, as we would like to locate the error.

We are aware that the recent crop failure in your locality has made local collection difficult, and that this may very possibly make it difficult for you to meet your bills with your usual promptness. Again, poor conditions have decreased the sales in your higher priced lines of goods. If you are impaled upon either horn of this dilemma, please do not fail to let us know, for if we understood the situation fully we could very probably offer a solution.

Very truly yours,

Dear Sir:

We thank you very much for your letter of February 2, explaining the difficulties that you are encountering in collecting debts from the farmers.

We are convinced that the situation is purely local and that it is bound to be only temporary. We are glad to extend the time on our matter of $16.50 for 60 days longer, by which time money conditions will no doubt be much improved in your locality.

Our experience in such matters, however, would lead us to suggest that you do not lay in a heavy winter stock this season, especially in the higher priced lines. We believe that you might easily injure yourself by so doing, as it would tie up considerable of your capital at an unfavorable time.

We wish you the best of success in your efforts and trust that we may have the opportunity of serving you in the near future.

Very truly yours,

A Letter of Discussion

Differing somewhat from the "general manager letter" presented elsewhere in this book (see page 216) is the following letter of discussion from the controller of a certain direct-selling manufacturer written to a customer whose account is large enough to make his credit an object to him. Consequently this letter resells credit and makes use at the same time of several appeals to pride and fair play.

Dear Sir:

We have a little plan in our office under which our collection department brings to my attention every now and then the accounts which have been on our books longer than they should. I suppose you follow somewhat the same rule of looking over your accounts every so often.

It isn't necessary, of course, for one business man, in talking to another, to point out the need for prompt settlement of accounts. And I am not going to talk that way to you. You understand that phase of the matter as well as I do.

I find, however, that sometimes people feel that because the House of Phelps has grown to somewhat large proportions, it can afford to wait for the settlement of an account here and there. That, of course, is perfectly true. But if I as a merchant pay my bills promptly when they are due, and my competitor in the next block or

in the next town is permitted to let his bills run 60 days or more, it is clear that I am not getting a square deal. He has a credit advantage over me.

I find, too, that a great many merchants do not realize that the reason we have been able to bring into the market cheap goods and to keep improving them constantly was our insistence upon rigid economy and good business dealings all along the line. Just as you make most of your money in quick turnover of your capital, so we also must turn over our capital frequently.

There is another little point which is important to the merchant, and which, frequently, does not occur to him. He can afford to pay 6 or even 7 per cent to borrow money in order to discount bills at 1 per cent. One per cent in 30 days means 12 per cent a year. If you borrow at 6 per cent, there is a clear gain of 6 per cent for the year on the transaction. That's more than a good many safe stocks and bonds pay you.

This is just a friendly letter, the purpose of which is to have you get after the person in your establishment who has delayed sending up a check for your account, because I know that you yourself, in view of some of the things I have mentioned herein, would not allow an account to drag unnecessarily.

The collection department wanted to proceed in the usual way to collect our account, but I stopped them in order to write you personally. I am perfectly convinced that you will respect our confidence in you.

Sincerely yours,

.....

CONTROLLER

CHAPTER X

REFUSAL TO SHIP GOODS

Holding Up the Order

An absolute refusal to ship his goods is the last step a credit manager is willing to take, but he is very frequently confronted by the need to hold up orders pending until the customer's indebtedness for previous orders is settled.

A furniture manufacturer had a slow-pay customer who was nevertheless entirely good for the amount of his order. There came a time when the manufacturer was oversold. He took advantage of this situation to write the following frank and good-natured letter to the slow-paying merchant. It was so successful that he says, "I have used it several times; in the first case it brought in the cash where three previous requests had failed. In every instance it retained good-will—in fact I think it made us better friends."

Dear Sir:

We have just received your order No. ..... of (date).

To be perfectly frank with you, Mr. ....., we may inform you that due to the unusual rush of business this spring, we have so many orders on file that we are obliged to cancel a good share of them and concentrate our attention on filling those received from customers who have paid their bills promptly, or who give us reasonable assurance that they will do so.

We are enclosing a statement of your account which dates way back to (date). You surely must admit that we have been very lenient in not pressing you harder than we have for payment, and will no doubt understand that the present classification we are obliged to make in filling orders, is not only the natural course to follow, but is necessary to protect the interests of the many customers who have always met obligations promptly.

Upon receipt of your remittance in full to cover your long-past-

due account, or at least a substantial portion thereof, we shall fill the order on file, and see to it that you receive the goods in due time to meet your requirements.

We trust that you will comply with our wishes.

Yours truly,

Simple letters dealing with similar situations are the following:

Gentlemen:

We are in receipt of your recent order given to our salesman, and are preparing the merchandise for shipment.

We find, however, on referring to your account, that invoices have now fallen due amounting to over $..... It is some time since we have had a payment from you, and before forwarding your order we request that you favor us with a remittance of $..... to apply on account.

Very truly yours,

Dear Sir:

We have written you at length in connection with your patronage and particularly your order of June 14, but have not received any reply. If there is no way by which we can arrange for the filling of this order, we will upon your suggestion lay it aside.

Yours truly,

Dear Sir:

We wrote you on June 27 regarding your account and our inability to proceed with the shipment of your pending order before this balance was straightened out.

Of course, the order being practically all for Fourth of July, you will not be in need of it at this time. However, we will gladly give attention to any portion of it that you desire filled, and hope to have your account in such a condition as to admit of our adding promptly any charges that may cover further orders you may send us.

Yours truly,

Dear Sir:

The merchandise which you selected while in the house recently amounts to a little over $..... as indicated by the enclosed invoices. We find, however, on referring to your account, that you are now

owing us $..... and before shipping your purchases it will be necessary for you to send us a remittance sufficient to bring the account down to $....., the limit agreed upon. Upon receipt of your check for $..... we will be pleased to make prompt shipment of your recent order.

Very truly yours,

Dear Sir:

We earnestly hope that you will acknowledge our letter of June 27 at your earliest convenience, as we are anxious to dispose in some satisfactory way of your pending order of June 16.

Yours truly,

Dear Sir:

July 15, the date set for the shipment of your order of June 16, is close at hand, and we are accordingly very desirous of receiving your instructions, as we have suggested in our former letters.

We hope you will have the kindness to write us before the date in question, and we hope also that the information to be offered will assist in our reaching a definite understanding not only on the order now under consideration, but also on later purchases.

Yours very truly,

Gentlemen:

We regret very much the need of directing your attention to the bills on your account that are delinquent, but inasmuch as they stand in the way of our executing your order just received, we have no other recourse.

We trust that your remittance for the items of May 31, amounting to $74.29, may reach us by return mail so that your present order, which is already packed, may be shipped at once.

Yours very truly,

Dear Sir:

While not unwilling to add the charge of July 2 to your account, we find that there are two bills, one dated April 5, amounting to $17.13, and the other dated May 18, amounting to $51.39, which have not been remitted for.

It is essential within our rules that all bills be paid forty days from their date and also that future charges be withheld from accounts

that are delinquent. We trust that the propriety of your remitting for these items will appeal to you to the end that the present order may be shipped without a moment's unnecessary delay.

Yours very truly,

Dear Sir:

We have written you on various occasions regarding several orders that are still pending in our files, but have not received your reply.

Please understand that as far as your financial worth is concerned we should be glad to extend your credit for a much greater sum than is represented by these orders, but the difference on the account to which we have already referred seems to stand in the way of their prompt execution and we should be pleased to have your explanation regarding this balance as soon as convenient.

Yours very truly,

Dear Sir:

We are in receipt of your postal asking us to hurry shipment of your goods, but we appear to be without response to our letters of June 14 and 20.

We shall be very glad to proceed with the shipment if you will send us a deposit to apply on the order and give us permission to send draft with B-L to your bank.

Kindly inform us by return mail so that we shall know how to proceed.

Yours very truly,

Dear Sir:

We are in receipt of your letter of July 2 and regret you did not feel able to send us a remittance to enable us to ship the order which we are holding. We have the goods all packed and ready to go to you, and if you do not expect to use them on the terms suggested, will you kindly inform us under cover of the enclosed stamped envelope so that we can return them to stock without further delay.

You appreciate that it would give us great pleasure to ship the goods on open account, but in view of the delinquent nature of your payments for some time past and the fact that you are not able to promise any improvement, we do not feel able to make the shipment in this way.

We shall await your reply.

Yours very truly,

A Good-Natured Appeal

A shoe manufacturer who felt the need of warning his careless customer wrote a cordial and good-natured letter reselling the goods and asking payment of the previous invoice so that this order might be shipped without delay.

Dear Sir:

Let us thank you for that nice order for shoes which has just come in through Mr. Wales. Your selection shows that you know what good values those boys' Bluchers are.

But we find, Mr. Markel, that your last invoice is somewhat overdue, and, as you know, our policy prevents us from extending further allowances while things are in this shape.

No doubt you have let this matter go longer than you intended, and we shall expect to get the amount our bookkeeper has against you in the course of the next week.

We shall go right ahead getting the shoes ready for you, and will have them on the floor for shipment in ten days' time.

We wish you the best of success with your school trade.

Yours very truly,

A certain jobber had tried for some weeks to secure a reply to his collection letters and, at length, on asking courteously for an explanation, received a brief letter saying that collections were poor but that after the holiday season the merchant would be able to pay in full. As he had already exceeded his credit by a considerable sum, it was not thought safe to ship the additional invoice without security; moreover, the manager felt that by proper exertion the merchant could collect sufficient of his own outstanding accounts to forward a remittance. Accordingly he wrote as follows:

Dear Sir:

It is a matter of great regret to us that we have been obliged to act unfavorably upon the request made in your letter of November 20.

While we appreciate the peculiar circumstances which have made it difficult for you to reduce your outstanding indebtedness so as to bring it within the allowance agreed upon, still we are unable to allow the present order to go forward without receiving a substantial remittance, of say $150, to apply on past accounts. You will appreciate

that though a house may be glad to extend all possible favors, it must act in the interests of all its customers as well as of itself, by maintaining such terms as are consistent with the safety of all concerned.

At the same time, we understand your urgent need for the goods now packed and awaiting shipment, and we believe they would have such a ready sale that you would be justified in securing the amount needed. It is difficult to secure at this late date goods which will give you a satisfactory Christmas trade, and this trade, of course, you do not wish to lose.

We shall hope to be able to ship the goods, and shall hold them until December 3. In the meantime we assure you of our most cordial good wishes, and our desire to be of service.

Yours very truly,

An Ultimatum

A merchant had been allowing his indebtedness to accumulate and continued to send in his orders for spring goods. The credit manager had carefully explained to him the impossibility of continuing to make shipments under these conditions, but when further orders were received, he issued an ultimatum, hinting that, being his largest creditor, he was in a position to make serious trouble for him, and reminding him that he should be doing a good business and settling his bills.

Gentlemen:

We are just in receipt of your orders from Mr. Cunningham, one for neckwear which we have sent to the department to be manufactured, the other for hosiery which we note is marked to go at once. We have also sent this to the department, but we regret we do not see our way clear, as we have previously indicated, to make further shipments until after the past-due account has been materially reduced and some definite arrangement arrived at for weekly payments.

We simply cannot ship spring goods with practically the entire fall and winter account unpaid. We wrote you a very long letter in regard to the matter on April 13. The favorable spring weather, which no doubt you have been enjoying, and will enjoy for the next two weeks, ought to enable you to make a decided impression upon your indebtedness to us, which must be a very considerable portion of your entire indebtedness.

Yours very truly,

Making a Fair Proposal

Another credit man in dealing with a notoriously slow-pay and shifty customer made a very clear statement of what should be the attitude of a merchant who was unable to pay in full. Instead of being content merely to acknowledge the arrangement, he enforced the moral of the situation, though in a diplomatic manner.

Gentlemen:

We have yours of July 1 addressed to the writer, and thank you for it. We have always felt where any merchant, in view of conditions over which he has no control, finds himself unable to meet all of his bills when due, that he should, after paying his actual running expenses, divide his receipts pro rata among his creditors. Not only is this fair and equitable, but it is good business policy. Every house then knows that it is receiving its fair share of the receipts, which is all any house can ask, and they should be willing, as you state, and you will find them very generally ready to grant such extension as the conditions make necessary.

It will be perfectly satisfactory to us if you remit us each week during this month, in accordance with your business and other obligations.

Yours very truly,

Proposing Instalments

The credit man who has gone direct to his customer for information is able to write with corresponding frankness on the basis of the data secured, a thing he might not be able to do if the information had come from outside sources. The specific arrangement laid down in the following letter is based, as the reference indicates, on the customer's own statement.

Gentlemen:

When we wrote you on May 5, acknowledging your check for $100, we expressed the feeling that, in view of the amount you were owing us, which represents, according to your statement, all that you were owing from last year, we might naturally expect another check at once to apply on the account, especially as spring trade has opened up and you should be doing, even with all conditions considered, a reasonably satisfactory business.

May we not expect a remittance of at least $250 to apply on your account, to reach us by Monday, May 17, and a remittance for at least $100 a week each following Monday thereafter until the account has been fully paid? Even this arrangement would take you six weeks, or until the 1st of July, to take up bills which were due and payable last year.

Yours very truly,

A Plain Statement

In a similar situation the credit manager made a strong appeal to fair play, as the statement disclosed that the customer had taken a shameful advantage of his leniency on the ground that being his largest creditor this house would not deal severely with him. Further shipments for spring trade were promptly held up until the fall invoices had been settled.

Gentlemen:

While we thank you for your statement just received, which we note to be under date of April 30, it is with most sincere regret that we note ours are the only bills of last year that are unpaid, and according to our books your bills with us run back to last September and October and November.

While we desire to have our customers feel that we are most willing to co-operate with them at all times, we would hardly expect them to take advantage of our consideration. We therefore feel that before making shipment of the spring goods, our past-due account should be taken up, especially that portion of it for last year, which approximately amounts to $611, statement of which has been sent you.

On receipt of your remittance for this amount we will be glad to forward the goods on order for spring.

Yours very truly,

A Last Appeal

After receiving the above letter the customer declared that payment was impossible at the time and that he should be obliged to buy his spring goods elsewhere. The manager

might have based his response entirely on fear. He could have gotten this merchant into serious trouble by taking him at his word and cancelling his order. He could have dealt a permanent blow to his credit standing by making his condition public. But long experience had taught him that such men could be brought to terms and converted into good and valuable customers; besides, he knew that the retail merchant does not always consider very carefully what he writes in answer to collection letters.

Consequently he based his entire appeal upon fair play while his last sentence did no more than hint at possible cancellation of the order.

Gentlemen:

We must say that we received yours of May 8 with check for $..... with very sincere regret. It would seem to us the fact you are now owing us $..... on last fall's bills past-due, would merit a better treatment than to have you feel that, because we are not in a position to ship goods for spring until your past-due account has been very materially reduced, you should be forced to buy your goods elsewhere. It would seem to us that you ought to feel you are under obligation to buy your merchandise from us, and arrange to pay for what you buy in addition to reducing your past-due account as fast as possible.

We cannot look at it in any way but that you should buy what you need from us, paying for it, and making weekly payments of $..... on the past-due account until you have it in such shape that we shall again be able to go along as we have done in the past.

We have your spring orders still on our files awaiting some disposition. We believe the above policy is due not only us but yourself. You certainly ought not to blame us for the fact that you have permitted practically your entire fall bills to run until spring. We are quite at a loss to understand why you should make us the losers for having been generous and so considerate with you in regard to your past-due account.

We wait your pleasure, and ask you to advise us what conclusion you come to so that we shall know what disposition to make of the goods on order.

Yours very truly,

CHAPTER XI

REQUEST FOR CREDIT STATEMENT

Where the Customer Refuses Information

"You are surprised at my leniency," said the credit manager of a certain jobber, "and all the more so when you found me writing long letters to 'bring a man to time' who was incorporated for only $5,000. Now this particular retailer is hot-headed, and he is none too good a business man as the state of his accounts indicate. But the size of his account never makes any difference with the fair treatment I give a customer. Moreover, he has many years of business life before him. Suppose that at the expense of the little time I and my assistants take in writing him, or the comparatively small amount of money we lose by carrying him so generously on our books, we can bring about a change in his personal attitude and method of doing business. If we take an attitude of opposition we shall certainly not succeed, and then of course there is the chance that he might fail, in which case we should lose still more heavily. If we convert him, he becomes a source of good business to us, and every man who becomes a better merchant helps to stabilize the general mercantile condition. Such letters as these look a long way into the future."

Two letters from the correspondence referred to are given below. In the first, it will be noticed that the creditor had asked for a remittance and a property statement, as a condition of shipping a large spring order. The merchant paid his bill but flatly refused to give the information asked, saying he would prefer to cancel his order. The manager based his entire appeal on the customer's sense of justice.

Dear Sir:

It is with the most sincere regret that we received yours of April 6, and note the spirit in which it was written. You say that you are surprised at our attitude towards you as you certainly thought we were good enough friends to allow you to impose upon us for the small amount you are owing. Does it occur to you that that is not quite the kind of a letter that should be written to a concern to whom you are remitting at that time on payment of bills due last fall?

Would our attitude toward you, during last season, when your spring bills were not balanced until October, and during this season when your fall bills were not paid until April, indicate that we have been helpful and co-operated with you, or does it indicate that we are subject to criticism?

We will of course comply with your request and cancel the goods on order, but we do so with the greatest regret, first, because we want to continue to do business with you, and second, because we regret that you do not feel that our consideration justifies our having the information upon our files which we requested, and to which evidently you take exception, as you certainly cannot take exception to our treatment of your account, either last season or for the previous season.

Our recollection is that you are incorporated for $5,000. You have never made us a statement of your affairs since you first started in business, some three years ago. It has been our custom with all of the merchants trading with us to ask for a statement from time to time, as we feel that by so doing we are in a position to keep in touch with them and be of assistance to them. We believe a second consideration of our treatment will unquestionably lead you to take action that will permit us to ship spring goods.

Yours very truly,

The hot-headed customer replied, charging the manager with having insinuated certain charges against him. Although it was apparent that no fair reading of his letter was open to such an interpretation, the manager wrote a painstaking and courteous reply, using the occasion to "sell credit."

Dear Sir:

I am seriously concerned with regard to that part of your note of April 26 which is underlined, namely, that "you insinuate things that we would never be guilty of doing."

We certainly appreciate your business. We believe our treatment of your account up to now indicates this, and we are sincerely quite at loss to understand what you take exception to in our present position. It would hardly seem to us that you could object to our desiring to have some definite understanding with reference to the payment of last fall's bills before shipping the goods on order for spring; nor do we feel you could take exception to our having asked for a statement of your affairs. We have no hesitancy in asking any concern with whom we do business for such information. We have been in business fifty-three years; we have forwarded statements at the end of each inventory, twice a year, to the principal agencies and to our banks; and anyone with whom we are doing business even today is in a position to secure exact figures with regard to our affairs.

Entirely independent of your reinstating your order with us, which we have regretfully canceled, we would very much appreciate your advising us just what part of our letter you took exception to. As indicated in one of them, you are an incorporated company. As we understand it, you are incorporated for $5,000. While the condition of your affairs may be in every way satisfactory, we have no means of knowing it. The responsibility rests entirely on the condition of your business, as there is no personal responsibility in an incorporated business.

You say that during all the time we have been doing business with you we should have satisfied ourselves as to the moral risk. Never for one moment has there been any question of the moral risk in our mind, but if you could have our experience for only a short time, you would have found out very conclusively that honest people fail in business, and fail to succeed in business, and there must be some basis for credit other than confidence in the moral risk, although that is the actual basis of all credit.

You state you have splendid backing, with reference to which we have no knowledge whatever. Your position, that you do not make statements to anyone, is quite unusual in these days, when every merchant recognizes the right of the extender of credit, whether it is his banker, or the houses with whom he is dealing, to have definite information that will enable the goods to be shipped understandingly. This matter of doing business is not only one of profit, but should be one of mutual confidence. We believe we have the same right to expect your confidence as you have to expect ours. We believe we have as much right to know the condition of a business, to which we are shipping goods, as the dealer, on his part, has to expect us to demonstrate our confidence in his condition and his intentions.

The confidence must be mutual. We certainly have demonstrated our confidence, when we remind you that your remittance of April 8 took up the bills that were due last fall, and we are entirely at a loss to understand why you, on your part, should not show the same confidence in us, by being willing to give us the condition of your business, which should be the basis for credit with us.

As we stated in the first place, entirely independent of whether we ship you goods for this spring or not, we would like to have you advise us what things were insinuated, or to what part of our letter you felt you were justified in taking exception.

Yours very truly,

Request for Credit Information

When such patient, friendly reasoning has altered a merchant's point of view with a resulting increase in his prosperity, the credit manager may well be encouraged for his future endeavors. An instance is given by an official of a well-known house, which resulted happily for all concerned. The manager had received private information that the customer's affairs were approaching uncomfortably close to the danger point. Not wishing to reveal the source of his information, he wrote an urbane letter direct, enclosing a blank form of statement to be filled out by the doubtful customer.

Gentlemen:

Our credit files show that you take your inventory usually about the middle of February, and as it is customary with us to revise our credit information from time to time, and as we have had no recent information from you, we take the liberty of asking you if it would be convenient to place us in touch with your present condition.

We trust it will be your pleasure to send us this information on the blank we enclose (or any other form you desire will be equally satisfactory). We hope the outlook is favorable in your section for a prosperous spring and summer business.

Yours very truly,

As he expected, he struck fire; the customer indignantly refused to make a statement of any kind.

Gentlemen:

We are in receipt of your letter of February 16, and would like to know where you get your information from, stating that we take our inventory in the middle of February. Beg to advise you, that we take our inventory January 1 and July 1, and we cannot see why we are under obligation to you to give you a statement of our affairs, as we make them to Bradstreet's and Dun's, and if they are not satisfied as to our rating we certainly do not want you to take any chances on us. This is the first mercantile house that has ever asked this of us. While we are not at all alarmed to make any statement at any time, yet we are not receiving any amount of credit of you that should justify you in requesting a statement.

If our account is not satisfactory to you, just kindly let us know at once so we can arrange without inconveniencing you or us.

We regret that we cannot comply with your wishes.

Yours respectfully,

The creditor's reply justified in masterly fashion his practice of going direct to the customer for information, and suggested that the closing of the account would be entirely satisfactory to him.

Gentlemen:

We have your letter of February 21, and regret you do not feel disposed to send us the statement requested. The reason we wrote you direct was that we did not find any 1918 statement in the agencies, whose report we have before us, the last statement sent us in response to our recent request being that of February, 1917.

The reason we stated that it was our understanding that you took your inventory the middle of February was that in your 1917 statement to the agencies, they stated the condition was given them as of February 14, 1917. The reason we felt the necessity of recent figures was that not only has your small account with us been slow but from reports we have before us, we note you have been slow in many other quarters. It is not, of course, necessary that you should give us the statement unless you desire to do so. When we want definite information we always feel perfectly justified in going direct to the customers; they certainly know more about their business than anyone else, and we did so in this case because we did not find it in the agency sources. We have always felt the more closely we are in touch with our customers and their affairs the better able are we to serve them, and we make no apology in asking any concern to place us in touch with the condition of their business.

We would not feel justified, under the circumstances, in forwarding the goods without the statement. We will again write the agencies and ask if they have your recent statement on file, and if they have, ask that they forward it to us. When we receive it we will be pleased to give it our careful consideration and advise you whether we feel justified in shipping the order we have upon our files for spring. In the meantime, should you prefer cancellation of the order, it will be entirely satisfactory to us.

We await your pleasure in the matter.

Yours very truly,

This was just the firm hand which the customer needed. He had in the meantime cooled off and realized how heavy was his moral obligation to the wholesaler who had supplied him with goods and granted him courteous treatment over a period of years. His response shows him in a chastened frame of mind.

Gentlemen:

We are in receipt of your letter of February 24. After reading it over we had to look up our file to find the letter that I had written you on February 21. I can assure you that I felt very much chagrined, as I must have been out of sorts when I wrote this letter. This excuses no one, but I must apologize for writing this letter as it sounds very sarcastic indeed. I do not feel any way insulted over your letter as it is diplomatic from a business standpoint.

I have gone over our files and find we have not sent in our report to Bradstreet's and Dun's, as I expected had been done, but they will go forward today, and I am enclosing you a copy of same.

You refer to our account; we admit that we were a little slow with you, as the overgrowth of our business has kept us from meeting these accounts as promptly as we should, but we trust it has not inconvenienced you to a great extent. I should have written you regarding it after receiving your statement, but neglected to do so.

We trust you will overlook this letter that we wrote you on the 21st and await your reply.

Yours respectfully,

But this was happily not the end to the affair. The merchant followed up his letter with a visit in person accompanied by his partner, and the resulting interview gave

the manager a chance to go thoroughly into their affairs and to give financial advice which eventually was the means of putting the customer on his feet. His letter of gratitude closes this interesting series.

Dear Sir:

It is certainly a pleasure for me to write you this letter, as I wish to inform you, that through the very meeting that you, Mr. Smith, and I had in your office, and the time that you gave up while in your city, I have found out how to get my business properly financed. Through the advice that you had given us, coming home and taking up our business thoroughly, I was enabled to take it up with my directors and my bank, and they have furnished me ample means to pay off all my creditors and placed me on a strictly discounting basis.

This meeting that we had I shall never forget. We will be in your city before long taking up the subject of how to attend to our future buying. We trust you will answer that you will allow us a little more of your time, when we visit you.

It has taken me seven years to get this business financed and I can assure you that I have got a load off my shoulders now. I want to make it a strictly money-making business, and any favor you can show us along this line we will try to reciprocate, by giving your house as much of the business as possible.

Kindly let me hear from you.

Yours respectfully,

CHAPTER XII

EFFECTIVE COLLECTION PROPOSALS

Cutting Down the Order

Another option of the credit manager who wants to ship his goods is to cut down the size of the order. This can be handled in such a way as to give no disadvantage to the customer while protecting the creditor. The manager may suggest that the order be broken up in several shipments to be sent forward as the customer may require. This enables him to keep his capital employed, while at the same time it enables the manager to hold up further shipment in case payment is not forthcoming.

The following series of letters shows a remarkably constructive attitude. It is an unusual example of the credit man at his best, as a seller of credit.

Dear Sir:

We are taking up the shipment of fall goods, and as we desire to keep in touch with you and your affairs we would like to have you send us, if you will, a memorandum showing the total amount of your purchases for fall.

While the addition of recent capital will, of course, be of material assistance, and while we recognize that you must order more liberally in advance, in view of your distance from this market, at the same time we hope that you will not make the mistake that is so frequent among merchants of ordering too largely in advance. Then, if conditions are not as favorable as you anticipate you will not be overstocked at the end of the season with a consequent too large indebtedness.

We believe a liberal purchase for fall would be not to exceed 50 per cent of what you have full reason to feel will be your sales for the fall and winter season; for instance, if you expected to do $10,000, on which you would look for a profit of $4,000, the goods sold during the entire fall and winter season would cost you $6,000.

It would seem to us that at the most an advance purchase of $3,000 would be as much as you would be justified in making.

We thank you for this information and wish you every success in the future.

Yours very truly,

Dear Sir:

We acknowledge with thanks your letter of August 3. One or two inquiries about you have come in from our neighbors, which we have been pleased to answer; we feel there is a most favorable disposition toward you, evidenced not only because of your character and the feeling on the part of all that you are willing to work hard and be economical, but also because of your willingness to give information freely and frankly in regard to your affairs. It is a pleasure to indorse your position in this respect.

Now, in regard to the shipment of fall goods: while we should like to start shipment when you will need the goods, at the same time we feel that our existing past-due account should be, if not entirely paid, at least very materially reduced before we are expected to ship. We are, as you will note by our recent letters, quite concerned as to whether you have not bought more in advance for fall than you should, but as we understand that you have arranged for these goods in different shipments and can, if necessary, cancel the later shipments, we see that you have a chance of recovery if you find that the orders placed are in excess of what you will need.

We hope that you will be able to give us a payment to apply on our past-due account, and outline some definite plan for weekly payments to apply on the balance, so that the entire amount or practically all of it may be taken up before you are in need of fall goods.

Let us assure you of our desire to co-operate with you in every way we consistently can.

Yours very truly,

Dear Sir:

After we had O K'd for shipment your fall orders amounting to about $1,075, we received yesterday your order for shirts from Mr. Taylor for immediate shipment, amounting to $650.

We regret that it is quite beyond our ability to extend a credit of this amount, making practically $1,700, as you are now owing us $1,092. That was the reason we wrote you as we did, asking you to put us in touch with the exact amount of your advance fall purchases and advising you to cut them down, showing you were

not justified in buying too largely in advance, and that you should not anticipate your sales for more than four months at the most.

With your sales of $20,000 a year and your profits of approximately $5,000—they may be a little more than that—the goods you would sell in a year would cost you $15,000. Possibly your last six months will be the best and the goods you would sell would cost you $8,000; but this would be for the entire season from the 1st of September until about the 1st of March—six months—and $4,000 would in our judgment be very liberal advance purchases. You informed us that you had cut down your advance purchases to this amount and this included, of course, the amount purchased from us. We are now in receipt of this additional shirt order which, though we presume you need it, at the same time we are unable to forward, as we feel the amount of credit we are already extending is very liberal and really more than we are justified in giving.

You are still owing us $108 upon an invoice of June 10, due July 10, and now two months past due.

We should be pleased to hold the order and to make any arrangements for its shipment that you suggest.

Yours very truly,

Dear Sir:

It was a pleasure to receive your letter of September 14, and again we thank you for the spirit shown in writing us. It is not that we lack confidence in either your ability or your honesty, but we feel that we are already extending a credit fully as large as we are justified in doing, taking all things into consideration.

In fact, there is no justification for the amount of credit we are extending you now on a business basis. It is only because we find you concentrating your business with a few houses and the right kind of houses, and because you show a willingness to abide by their judgment and give them information in regard to your affairs, that we have been willing to extend such an amount of credit; this amount we feel is very liberal.

We shall be pleased to receive the remittance to take up the bills past due, which we note you intend sending next week.

We shall be very glad to hear from you regarding shirts or any other goods you need at any time, and you may always expect careful and serious consideration on our part. We believe, however, that with the amount you have from us now and with orders from time to time supplementing your stocks, it ought to be possible for you to get along during the season.

Yours very truly,

Turning Down an Old Customer

The regular financial statement is the barometer of the merchant's business. When it shows that a storm is approaching, the credit manager to whom it is submitted will begin skilfully to reduce the amount of his business with the customer so as to be entirely "under cover" when the storm bursts. One manager who had been proceeding conservatively with regard to a certain customer received a letter from him containing his property statement and asking why his salesman had not called. The manager decided to write frankly and show the merchant whither he was drifting.

Dear Sir:

Thank you for your financial statement of January 20. Under the laws of your state, so much of the value of the homestead listed would be exempt, that it can hardly be regarded as a basis for credit to your firm. Leaving it out of consideration, your assets appear to amount to $....., against which there are liabilities aggregating $....., the net surplus being $.....

Your report ..... showed an indebtedness of $..... against a business investment of $....., leaving a net worth of $..... The residence was not included in this calculation. The report of ..... showed business assets $....., liabilities $....., net worth $..... The report of ..... showed business assets $....., liabilities $....., net worth $.....

A comparison of the figures just received with those submitted in the earlier reports indicates a decided retrogression in your financial affairs. Not only does your surplus seem to be smaller, but your liabilities are very much heavier in proportion to your resources. In fact, it seems to us that your present indebtedness is dangerously large as compared with your business assets, so that we are forced to the conclusion that you are rapidly drifting in the wrong direction, and that unless some radical changes are wrought in your financial and business policies, you cannot in the end avoid serious embarrassment.

Being fearful of giving offense, we have hesitated thus frankly to express our apprehensions to you, but you have been patronizing us for some time and we earnestly desire your success, so that at the risk of being criticized for offering gratuitous advice, we are giving you the benefit of our observation and experience in such

matters. We trust you will take these suggestions in good part and weigh them carefully.

Until there has been a marked reduction in the amount of your indebtedness, we cannot, we regret to say, continue to solicit your orders on the regulation credit terms. We shall hope, however, to hear soon that you have succeeded in bringing about such improvements in your financial matters as to relieve you from all danger of embarrassment.

We shall be glad to give you service in any way which lies open to us.

Very truly yours,

Following Up Part Payments

When a delinquent customer has made the plea of inability to meet his total indebtedness and an arrangement for weekly payments or settlement on some other basis has been arrived at, the credit manager must follow up this plan carefully to make sure that promises are being kept. The courtesy and leniency which has permitted the agreement can be made the basis for a strong appeal to justice and fair play, while the debtor can also be reminded of previous occasions on which he has been well treated by the credit manager.

Gentlemen:

Our Bookkeeping Department has again called our attention to the balance due on spring bills, most of which matured May 1, and the further fact that during the month of May we received but $236.30, and so far this month $200. We were under the impression from your letter of May 17 that you would send us weekly remittances.

We have had no money from you for nearly three weeks, and you will please call to mind that it was very distinctly understood that our spring bills were to be paid promptly. We trust, therefore, it will be your pleasure to send us a remittance to cover at least one-half the amount due ($456.40) during the coming week, that is, the week of June 21, and to send the balance the week following, the week of June 28. We consider this a very liberal suggestion and will expect your prompt compliance therewith.

Yours very truly,

In another similar case the manager assumed that a check may have already been sent, and in the latter part of the letter implies that the account may have been overlooked by subordinates.

Gentlemen:

Upon referring to your account at this time we note we have not received a remittance from you since the $250 which reached us on March 8. If a substantial check has not been sent by the time this letter reaches you we shall expect you to give your immediate attention to the account.

We have been crediting you very largely during the past season and handling your account with the utmost leniency, but it is not going to be possible for us to advance your account from week to week without some money. We desire this letter to receive the personal attention of the member of your firm who looks after the finances, so that he may arrange for us to be supplied with a substantial check each week. Our ability to continue an account with you will depend entirely upon whether or not our present account receives satisfactory attention from now on.

Yours very truly,

An Appeal to Fairness

Various points are logically taken advantage of in the following letter. It points out that the remittance is entirely too small to allow shipment of spring goods, although had half of the fall bills been taken care of by this time, the shipment could have been made. The customer, moreover, has treated the creditor unfairly in view of his unusual leniency granted because of the extraordinary business conditions in his city.

Dear Sir:

We want to acknowledge and thank you for your letter of April 11 enclosing a check for $250. While we are glad to receive it, still it makes a pretty small hole in nearly $..... of indebtedness, almost all of which is for last fall, and therefore long past due. As much as we regret to inconvenience you in the slightest, we cannot consistently make shipment of spring goods until our past-due account has been materially reduced. Had you taken care of one-

half of your fall bills by this time, we would have been glad to make such shipment of spring goods as you needed at the start, and continue shipments from time to time while in the meantime you were paying on the balance; but with practically all of the fall bills owing now, when spring business is started, as much as we would like to favor you, we could not consistently increase the credit at this time.

The amount you are owing us is about one-fourth of your entire indebtedness, and during all of the past few months, we have received nothing of your receipts.

We fully realize what business conditions are, especially in your city, otherwise we would never have permitted the account to go on from week to week and month to month as it has. No house, we believe, has been more liberal to you than we have been, in increasing the amount of your credit from year to year, and in increasing the time allowed you each season to pay up; but the amount now owing on last season's bills absolutely precludes the possibility of our making shipment of spring goods except upon a cash basis, until our past-due account has been very materially reduced, and some definite arrangement made for weekly payments to take up the balance.

It is with the greatest regret that we find your lack of remittances to us in the past three months has placed us in a position where we must write you as we are doing now.

Yours very truly,

Helping the South

When the war broke out the merchants of the South were thrown for a time into a desperate condition due to the inability of that region to dispose of its principal crop, cotton. The manner in which Northern merchants came to the assistance of their Southern customers at this time is represented in the following letters.

Gentlemen:

We received your remittance of April 21 of $100, which leaves $869.88 still due on last season. While we regret you have not been able to make these remittances regularly, we have no doubt that from now on you will be able to do so. Conditions should be improving daily, and we believe that during the next five weeks at the outside, you will be able to take up the entire amount owing us past due.

Of course it is unfortunate when it takes up to the first of June to take up the bills of the previous season, as this leaves really only one month, that of June, as a profit month to pay for summer bills. We presume, however, you are making your spring and summer purchases very conservatively, and we hope that by so doing your affairs at the end of this season may be in much better shape than they were in January.

If you can indicate to us that we will receive remittances each week, for not less than $150 each, to apply on our account until it has been entirely paid; and if you will kindly send us a statement showing the result of your January or February inventory; we shall be glad to take up the shipment of the spring goods. We feel that with conditions as they are, especially in the South, we are justified in keeping in closer touch with our customers and their affairs, in which we feel quite sure you will in every way agree with us.

Will you also kindly indicate, in sending us the statement, either on the blank we enclose herein or such other form as you may prefer, not only the amount of your sales and expenses for last year, but how much your purchases have been for spring, what portion of the goods have been received, and what portion is still to be shipped.

Thank you for your continued confidence and co-operation.

Yours very truly,

Dear Sir:

We regret exceedingly to receive your letter of August 19—which should have been answered before—not so much because of your inability to send us a larger remittance, but particularly because of your unfavorable outlook for the fall and winter. We must acknowledge having more confidence in the future than you have. We believe that some basis for taking care of the cotton will be worked out by the National Government; in fact, we understand report was made yesterday making suggestion in regard to the matter, and we believe the arrangement may be such as will enable the merchants to realize to a considerable extent on their accounts receivable.

It is very unfortunate that just when the crop should have been so satisfactory this situation should arise. Of course the whole thing is almost beyond belief, and we probably should be thankful that our affairs are not interrupted even more than they are.

We realize now is the time you need co-operation and we will be very glad to extend it to you. If you will simply indicate what arrangement you would like to make to take up the past-due account,

we will be very glad to settle it that way. If you would prefer to send us a remittance each week or ten days, for as large an amount as you can, it will be satisfactory to us. On the other hand, if you would prefer to close the account with notes, due on the 1st and 15th of each month, commencing the 15th of September and running to the 1st of December, that will be satisfactory to us. We will be glad to meet whatever reasonable arrangement you may care to make.

Yours very truly,

Dear Sir:

We have your letter of September 12 and want to thank you very especially for the spirit in which your letter was written. The merchants of the South are going to need the co-operation of the houses from whom they buy; they are going to need some additional extension of credit. It is going to take some little time for the situation to adjust itself. You have evidently overlooked our suggestion that you give us some idea of your present condition in regard to your indebtedness, etc. We would like to have this upon our files in view of the fact that it will take some little time to pay our account up, and that it is going to be necessary for us to send you some goods before the account is entirely paid.

We would also like to know if you do not think it would be well to close your present past-due account with notes, due on the 1st and 15th of each month, commencing the 1st of October and running to the 1st of January. We believe this arrangement will meet with your approval and will be along the lines of your suggestion.

Yours very truly,

Dear Sir:

We thank you for your kindly expressions in your letter of September 22, and are very glad to be in a position to be of help to our customers. Doing business is purely a matter of mutual benefit, and it is a great satisfaction to find that the consideration we are in a position to give at times is more than repaid when opportunity offers.

We are sending you enclosed a statement of your account as it appears upon our books, and the notes as suggested in our letter of the 17th. We shall be glad to receive the statement, if not at once, in the next few days when you find it convenient to send it.

We firmly believe that conditions will improve daily and that by the first of December, at the latest, the general conditions throughout the South will have been solved, although perhaps not to the entire satisfaction of the South, but with as much satisfaction as they could expect under conditions. Our feeling is that the South must realize the fact that they have a product for which, unfortunately, they have lost their best customer, that no plan may be evolved that is going to place a fictitious price on this commodity. As we understand it, there were two million bales of cotton carried over from previous years, and there will be at best calculation, six million bales over produced this year. It would be absolutely beyond expectation that eight million bales of cotton could be withdrawn from the market upon this "Buy a Bale" plan. Even allowing that there were this many bales withdrawn, they would simply be a menace to the crop of next year and certainly the country could not afford to go to a planter and say: "You must not plant any cotton next year because John Smith has some cotton he wants to get 10 cents on."

We believe firmly that there are only about 40 per cent of the growers in the South who need help. We believe there are a little more than 50 per cent of the growers who are financially able to carry their own cotton. Furthermore, we believe that the banks, especially after the letter the Secretary of the Treasury, Mr. McAdoo, addressed to them yesterday, will loosen up on their cash so that there will be sufficient currency to pick the present crop and to buy seed for the next crop. Within the next sixty days, the Federal Reserve Banks will be established and permit of rediscount of paper through the local banks upon cotton warehouse receipts. In this way any portion of the crop that must be moved can be realized upon, if not in whole, then in part.

One thing we regret the most is the attitude of the merchants throughout the South, most of whom have lost their nerve. Business is going to go on, probably not just the same, but it is going to go on and we believe the Southern merchants are going to do an average business. We also believe that those to whom they are owing are more than willing to help them in carrying their accounts, if necessary, and giving them additional credit. They have nothing to fear; all they have really got to pay is their current expenses, and they certainly would do enough business to enable them to do that. The contribution of the North to this situation will be assistance in giving whatever additional time and credit is needed by the South.

Yours very truly,

A Tactful Rebuke

Arrangements carelessly entered into and not fully comprehended by the debtor for whose benefit they are made, should be carefully explained to him in detail when he defaults upon them. It is to be noticed that the following letter avoids saying, as it might have done, that a very definite promise had been broken, and it likewise avoids saying that the creditor will proceed to extremities. It hints at both these ideas, but closes with a strong appeal to fair play.

Gentlemen:

It has been over two weeks now since your last remittance. We are under the impression we had a definite understanding that we would receive weekly payments in view of the very considerable amount that is owing us, most of which is past due.

In your letter of April 30 you stated that you intended sending remittances each week, that in all probability you would increase the amount. We certainly would regret exceedingly any treatment of our account which would force action that would either inconvenience us or embarrass you, but under the present conditions we cannot continue the amount of your past-due account unless we receive weekly payments of not less than $.... each, the time having elapsed when we are willing to accept weekly payments of $.....

During the months of June, July, and August, you should have no difficulty in sending us $.... a week. *Even this plan will take you from now until the 1st of September to pay bills, most of which are on last year's account.*

We regret to feel that our desire to be as considerate as possible with your account is being imposed upon.

Yours very truly,

The Note of Finality

The following letter, while expressing a desire to be reasonable, contains a note of finality not to be misunderstood. Coming at the climax of negotiations, it secured action from the debtor and resulted in his final reinstatement.

Gentlemen:

When you wrote us on April 22 at the time you sent $50, we naturally expected that you would continue your remittances from week to week until your past-due account was entirely paid. We are, therefore, very much disappointed to have waited over three weeks without having received any additional payments.

We do not feel you are justified in asking, or we in granting, any further extension on this account. We certainly have not received our share of your receipts which is all we ask or expect. Even now, however, we have no desire to embarrass you, but we must insist on weekly remittances for not less than $100, the first to reach us not later than Wednesday, the 23rd, and continuing each week until your account, both due and coming due, shall have been taken up. This arrangement is most liberal as it will take you, according to our books, some two months to take up bills due and now coming due. We shall expect your prompt compliance with this reasonable suggestion.

Yours very truly,

CHAPTER XIII

GIVING CONSTRUCTIVE SERVICE

"Selling" the Discount

One of the chief values which any credit or collection department has to sell is the discount. In certain lines of business, such as certain parts of the rubber trade and the garment trade, this discount is so generous that any merchant should find it profitable to borrow at the bank in order to avail himself of it. But even when the amount is 2 per cent or 1 per cent, the articles sold on these terms usually permit of a prompt turnover, so that discounting becomes a very profitable feature of one's business. The creditor's interest in the discount is naturally greater than the customer's, for he offered the bonus in order to reduce his load of outstanding indebtedness and to make his capital available for business undertakings.

Accordingly, letters urging merchants to discount their bills are written by nearly all the credit men at one time or another. "In simple justice to yourself, you ought to be taking it," writes one man. "I owe it to you," says another, "to bring very earnestly to your attention and in detail the advantages to be had from discounting."

The following long and interesting letter was effective largely because of the strong appeal it made to the customer's pride as well as to his desire to make money. With this "flying start" the letter proceeded to point out that the customer's business with the creditor had actually been decreasing; yet in spite of this, he was asking the creditor for such extensions of time as practically to put the creditor in the position of financing those competing houses which were

also selling to this customer. A striking appeal to fair play ended this section of the letter, and a strong appeal to the customer's money-making instinct, together with expressions of confidence that appealed to his pride, brought the letter to a close.

Gentlemen:

We wish to acknowledge your letter of February 21 in which you refer to your account and say that it will be cleared up in a short time. This is satisfactory to us and we are glad to be of service to you in this respect.

We have a very high sense of regard for your firm and a full appreciation of the very pleasant relations which have existed between us. Accompanying that is a sense of duty which was very acute at the moment of reading your letter. Because of our long friendship and the fact that your interest is our interest, we want to suggest that perhaps you are falling into a detrimental habit in losing discount.

This has been a subject of discussion between us for several years and we have not changed our opinion in the slightest degree, but are more certain than ever that you do not do your store justice when you finance it through wholesale houses.

We do not want you to feel that, if you actually needed an extension of time in the ordinary course of business, because you were unable to go to the regular sources and obtain such capital as you required, we should not be perfectly willing to help you, but to lose discount amounting to vastly more than the interest charge, when such a loss is entirely unnecessary, puts a drain on your business which no organization can bear continually.

You say that you have made heavy advance purchases to provide against the radical increase in prices, but evidently these purchases have been in other goods than men's clothing, for your orders with us show only normal purchases; in fact, we did less business with you in 1917 than we did in 1916, and we did not do any more with you in 1917 than we did in 1914 and 1915. We have actually been losing rather than gaining with you.

This means then that whatever extra purchases you have made have not been in our line and that, even so, you are asking us to aid in financing those purchases. We are not objecting to that in this particular case, but the justice in a matter of that kind is so clear that you would not and could not expect us to make a practice of it.

We really deserve more business than we are getting from

you. We believe that, when our salesman comes to see you again, you ought to eliminate these conflicting lines and do for us what we are doing for you, namely, give us all you have in our grade of goods because we are confining the sale of our line to your store.

In writing you thus, we are primarily concerned about the future of your store and we hope we may yet succeed in showing you the mistake which you continue to make in not arranging to discount bills promptly on maturity dates. It is only when a business is properly financed that it becomes really profitable and it is only under such a condition that one feels free to promote it to its ultimate possibilities.

We have always felt that your business has not by any means reached its limit and we should not be at all surprised if you could make a hundred per cent increase in your volume beyond what it is now. We should like very much to work with you intimately with that object in view.

Think this over and come in and talk with us about it the next time you are in Chicago.

Yours truly,

Reforming the Discount Abuse

The co-operative movement headed by the National Association of Credit Men is gradually reducing the evil of the abuse of the cash discount. It is hard to make the customer feel ashamed of bad practice in this direction, because he knows it to be so common; merely to denounce it does not often bring results. With the same earnestness and good-will that he shows in selling credit, the business man must sell the idea of a reform in this abuse, until he brings the offenders over into the army co-operating for this purpose.

The folder entitled "The Cash Discount Historically Treated," by J. H. Tregoe, secretary of the National Association of Credit Men, is written so as to arouse interest in the subject, and to make a business man think just what is the nature of the act he has been wrongfully committing. It begins in such a fashion as to arouse curiosity and not to arouse antagonism, and it appeals strongly to pride and

co-operation. One credit man testifies that he mails it to customers who have taken a discount they were not entitled to, saying that since reading it he has been led to think more deeply on the subject, and asking his customer, "Should we not all feel in honor bound not to deviate from the terms on which our business is based?"

Offering Constructive Service

In Chapters XXVII and XXVIII on constructive credit work another method is shown. Instead of leaving the merchant to his own salvation, the house which employs assistants skilled in retail efficiency is able to offer a definite plan based upon the visit and examination of their representative.

The two following letters are presented as the final exhibit of correspondence in this chapter. Their tone of good-humored friendliness is interesting, as is their frank statement of the dangerous financial position in which the customer stands.

Gentlemen:

Please accept our thanks for sending a copy of your recent inventory showing assets $....., liabilities $..... and a net worth of $.....

A comparison with the figures of a year ago indicates that you have reduced your percentage of indebtedness from 49.7 to 48.07 per cent, but you made a further loss in your net worth of $..... The loss for 1916 was $....., so that in two years your total loss has been about $..... .

While you overlooked giving us your sales and expenses, we suppose that the loss is due to the fact that your stock is still too large in proportion to your sales, and that you have necessarily had to cut prices to an unreasonable degree in order to dispose of your goods.

The situation, as it appears to us, is so serious that you ought to make an effort immediately to correct it. Just how it is to be done, we cannot tell you at this distance, but we shall be very pleased to send a man to you who can help you analyze the condition and perhaps outline a definite plan for a solution of the numerous problems which must be solved before you will ever make money again.

Mr. ..... has managed successfully several retail stores and understands thoroughly the proper methods of merchandising, advertising, and financing which are generally employed by successful merchants. He can go to ..... at almost any time after ten days from now, if you want him, and he can stay two or three weeks if he can be of service to you.

He would proceed with our fullest confidence and you can entrust to him all the secrets of your business. It is only with the hope that he would have your confidence that we would want him to make the effort at all.

This suggestion is made primarily in your interest, although we admit we have a selfish motive also. We have been doing business with you so many years and so pleasantly, that we are desirous of making every effort to continue.

We have written you many letters in the past, and we hope that you won't think that this is just another one of those communications of protest and admonition. We feel that now is the time to do the things which we have expressed the hope you would do, but which have, either because of timidity or a false sense of pride, been delayed.

To delay longer, in our opinion, would be absolutely fatal, and we hope that you won't let anything interfere with your making definite plans at once.

Yours truly,

Dear Sir:

Since our representative returned from ....., we have talked over pretty carefully the condition of your affairs. We are sorry that you have allowed the profits of your business to be withdrawn so regularly by the monthly payments to stockholders, and we are sure that you will admit it has been a mistake which should be corrected with as little delay as possible.

You undoubtedly have been putting these withdrawals into outside investments, which probably have not proven as profitable as the mercantile business has been for so many years. Our suggestion is that you put back some of the capital which you have withdrawn, even if it means a certain amount of sacrifice in these outside holdings. If there should happen to be a loss in this connection, it would be offset by the increased profits from the mercantile business after a very short period.

After arranging this particular matter, your efforts should be directed toward the reduction of your stock, the elimination of as

many lines as possible in every department, and the installation of a complete set of records which will give you detailed information about your business constantly, which you do not have at the present time. There are other things which we might recommend, but these are the chief ones which should have your attention without any delay.

We are going to try to make ourselves as useful to you as we possibly can, but it is not hard to put your finger on the difficulties; you already know what they are and we have absolute confidence in your ability to straighten them out.

There is one thing which we have never taken up with you which we think ought to be disposed of at this time. It is customary in all cases where we deal with corporations to ask for a guaranty signed by the stockholders. This has come up since we became incorporated ourselves, and we have the guarantees of most of the corporations which we deal with. It has been on our minds to take it up with you before.

We are enclosing one of our regular blanks herewith, which we have made out for $30,000. This is in excess of your order, but will provide for additional orders which you may send us.

Of course, this blank will have to be sent to ..... for the signature of ....., but we will not hold up the spring goods until it is received. If you will advise us that ..... and you have signed it, and that you believe ..... will do so, we will begin shipments right away.

We believe thoroughly in your business, and its ultimate success. There have been certain evils which have crept into it, which have not been eliminated as fast as they have appeared, and we feel a little guilty in not keeping in closer touch with you in the last three or four years, because we have been watching these evils developing. It is sometimes unwise to be backward about expressing an opinion, and we are sure that you would have been glad of any criticisms which we may have cared to make in these few years.

We know that you will solve the problems in the right way, and we assure you of our best co-operation.

Yours truly,

It remains only to say that the customer met every suggestion of the creditor in the same fine spirit in which it was offered and that with their co-operation he has established himself on a sound financial basis.

Using the House Organ

The ideal house organ is written in the spirit of the family letter which goes from one member to another in the spirit of mutual helpfulness and interest. It has a splendid opportunity to sell credit, especially by articles or stories which point out the dealer's own interest in abiding by the principles of sound business. The house organ of Robert H. Ingersoll and Brothers Company once had an article entitled, "Don't Buy Too Many Peanuts at Once," a story of an Italian fruit-stand man who taught his nephew the peril of overstocking by allowing him to go through the hard experience of bankruptcy so that he might learn never to do it again. The story, you will notice, said nothing about *jewelers* who overstock, but the moral of the tale was plain.

Bankers, credit men, and financial authorities of every kind are often glad to respond to the request for articles on credit to be inserted in house organs. Salesmen can be asked to write articles from their experience. Now and then a customer can be found who has learned some lesson of good credit in the past and is willing to recount his experience for the common welfare.

Envelope Inserts

Special bulletins or booklets, reprints of magazine articles, accounts of addresses delivered, clippings showing the statements of prominent men, are good material to use in the campaign of education that arouses interest in credit. The National Association of Credit Men, under the direction of its secretary, J. H. Tregoe, is tireless in its efforts to bring the importance of credit to the attention of business men and gladly co-operates with credit managers who wish to obtain effective material to use in dealing with their customers.

Advertising to Aid Collections

The Credit Men's Association of Detroit, Michigan, conducted during the winter of 1917-1918 an advertising campaign through the columns of the *Detroit Free Press*, using large space, and emphasizing the advantages of credit to the community and the importance of prompt pay, both as a matter of pride and as an asset in the struggle for success.

"National Pay-Up Week," conducted in various localities according to plans suggested by the *Merchants' Trade Journal* of Des Moines, Iowa, has a similar effect in educating the community in the principles of credit and collection. Its immediate effect on collection comes through a strong appeal to pride and co-operation; by urging everybody to "get into the game," it removes the sense of shame which is one of the strongest factors in keeping delinquent retail customers from walking up to their creditors and settling old bills.

CHAPTER XIV

CO-OPERATION WITH THE SALES DEPARTMENT

Determining Sales Policies

"Our credits are made before our salesmen go on the road," said the credit manager for one of the greatest wholesale houses in the world. "Our salesmen are told just whom to approach. That makes the management of our credit and collection department comparatively simple." Doubtless this is a fortunate position, but it is also a fact that not all sellers of merchandise can occupy it at the same time.

"I don't see how you can sell those people," said one credit man to another. "I don't see why you can't sell them," replied the other with a chuckle. "I make $50,000 every year on business you turn down."

If all credit men were to deal only with gilt-edged credit risks, a large part of the United States would go without merchandise. The skilful credit manager secures information from sources which his competitor overlooks; forms judgments from indications invisible to the ordinary observer; educates the poor risks into the "good-pay" class; and by the use of some mysterious sixth sense detects the signs of disaster and protects himself before the crash comes. By exercising caution at all points, instead of only at the period of credit-granting, and by using constructive measures, instead of only negative ones, he increases the business of his house without increasing its dangers. Safeguarded by his skill his house can undertake sales policies that would otherwise be impossible. The new company, the company hard pressed by competitors, the company obliged to use the in-

stalment plan as the only means of marketing its goods—these are among the examples of houses that have need of good credit men.

The voice of the credit man must be heard in determining all sales policies. He must see to it that goods are not oversold either by advertisements or salesmen; that no promises are made which the house will not back up; and that abnormal credit risks are not involved in the marketing plan.

Failure to Co-ordinate Means Loss

The basic facts with regard to the relations between credit and sales are that if the credit man turns down orders that could be accepted, the company loses business; and if the salesmen sell, careless of credit, the company loses money if it accepts their orders and loses the customer's good-will if it turns them down.

"We co-ordinate our departments," says M. W. Cresap, general manager of Hart, Schaffner and Marx, "by having them under the same direction. The work of our sales department is done almost exclusively by the same people who have charge of the advertising and the credit. For our purposes this is a better arrangement than to split it up under separate heads whose relations to each other sometimes conflict."

Each new sales plan should have a corresponding credit and collection plan.

The Second Liberty Loan

A flaw in the sales campaign for the Second Liberty Loan was partly responsible for the failure of these bonds to "stay sold." The slogan used in some quarters was "Borrow and Buy" and stress was laid on the easy negotiability of the bonds, with the result that purchasers—not over-

sold, but undereducated on an important feature of their purchase—allowed the bonds to go back on the market. In the third campaign this mistake was in large part corrected; the country was shown that the war must be financed out of savings, not out of borrowings; and liquidation of purchases was at least not made for this avoidable reason.

Linking Arms With the Salesman

"Our salesmen are 100 per cent representatives of our house," says the president of a manufacturing company. "When they enter a customer's store, we teach them to say that they are not *from* our house but *of* our house."

Morale—which means enthusiasm, loyalty, fighting spirit—is the secret of success in any organization, and no system of co-operation between sales and credit will succeed without a strong morale. The salesman, like the customer, must be sold credit.

The natural inclination of the salesman is to sell. He is not a clerk and he does not like to make out long reports. He naturally inclines, moreover, to champion his customers against the credit department, to make favorable credit reports in doubtful cases, and to "go easy" on collections. He finds it easy to sympathize with the customer who has been drawn on, or has had credit turned down, or an order held up, or in any way has been disciplined. The good-will of the customer is his bread and butter, and it is small wonder that he seeks the easiest road to good-will.

But the salesman can be "sold" credit; he can become a hearty advocate of the credit man's point of view. With the right propaganda to encourage morale, he can come to see that his advantage lies in promoting the objects dear to the credit man's heart. Without the right propaganda to encourage morale, even the salesman's selling power will decline.

A famous credit manager remarked, "Getting a salesman to pay attention to the work of our department has been like making water run up hill; but it has been done. They give us the finest kind of co-operation if we take the pains to show them what our work means to them. I now feel that if a salesman slips up in his credit work, the fault is mine and not his." His salesmen are interested not only in selling but also in credit, and by this means he increases their pride in their work. The excellent record of collection in a salesman's territory and the low annual turnover of customers are items in which he may take a genuine pride. They are a measure of his loyalty as well.

Where the Salesman's Interest Lies

Every good salesman knows that sound credit and prompt collection are an asset to his house; but not every salesman is persuaded of the credit department's ability to do its job well. The credit department must demonstrate to him its willingness and ability to increase sales; to link arms with him in the constructive task of building up business.

How the Salesman Can Help

Collections need not be a regular part of a salesman's duty, but he should be thoroughly conversant with the policies of the credit and collection department, and he, as well as the members of the department, should have a clear vision of the marketing plan of the house as a whole.

The chief ways in which the salesman can help credit and collection departments are the following:

The good salesman:

1. Obtains credit information as the basis for the first order.
2. Educates the customer as to the terms of the house.
3. Avoids overstocking.

4. Avoids forcing goods on an unwilling customer.
5. Resells a customer, after delinquency, goods, credit, and service—adjusts grievances between the customer and the credit department.
6. Educates the customer in better business methods in order to increase good-will, to help the customer pay for his goods, and to build him into a source of better business.
7. Watches the customer's "character, capital, and capacity" in order to advise the credit department in:
   (a) Enlarging his line of credit.
   (b) Decreasing his line of credit.
   (c) Pushing collections before bankruptcy.
   (d) Helping to avoid bankruptcy.
8. Advises the credit department as to the most effective means of collection with regard to:
   (a) Local trade condition.
   (b) The customer's business condition.
   (c) The customer's personal peculiarities.
9. Helps to collect difficult accounts.

Obtaining Information

One credit manager told his salesmen, "The most valuable things you can tell me about a retailer are the things which enable me to picture him when I am writing letters. Is he a big, heavy fellow with sandy hair and a hearty laugh, or is he small, thin-faced, and dark-eyed? Some of the same information that helps you to sell him, will help me make my collections." Evidently this collection manager appreciated that collection is resale. Another kept on file photographs of his customers and their places of business that proved of value in helping to handle distant accounts. It is a good plan to urge salesmen to cover the back of the

usual information blank with personal data that seems to them valuable.

The printed list of questions which the salesman is asked to answer should be short and restricted chiefly to those items of personal information which none but the salesman can obtain so well. In the preparation of material for the present book the writer examined the credit files and information blanks of many houses, but it was a rare experience to discover one completely made out. The conclusion seems to be either that the salesman should receive some added incentive for collecting answers to a long list of questions or that the list of questions should be reduced in number and the salesman shown the importance of answering every one of them. A form of salesman's report is given on page 116.

One great importance of the salesman's information lies in the fact that as his investigations are made on the ground, he may disclose sources of strength not revealed by other kinds of information, thus enabling the credit department to *increase sales.* The house which cannot employ a traveling credit representative in such cases will find it worth its while to train salesmen to grasp this important opportunity —the credit department always reserving the right to interpret the information for itself.

Education as to Terms

In educating the customer as to the terms of the house, the salesman has a great opportunity to show that his company stands for service in all of its departments, and that the credit manager considers the interest of the customer on a par with his own. The salesman should thoroughly understand the reasons for the existing terms and should be fortified with all the arguments in favor of short terms, close collections, rapid turnover, and discounting of bills. He

SALESMAN'S NEW CUSTOMER REPORT.

To be filled out and sent in with each New Account.
If unable to obtain complete information supply as much as possible.

Date.....

Sold to.....P. O. Address.....

State.....

INDIVIDUALS IN FIRM.

Names..... .....Age.....Married.....

.....

IF A CORPORATION

Officers.....

....

Kind of Business.....How long in Business.....

Ever failed.....:Ever been sued.....

Character.....Business Ability.....

Does Banking with.....

FINANCIAL STATEMENT.

ASSETS		LIABILITIES	
Cash		Accounts Payable	
Accounts Receivable		Notes Payable	
Bills Receivable		Mortgages, Real Estate	
Merchandise		Mortgages, Chattel	
Real Estate		Other Liabilities	
Horses and Wagons			
Tools and Machinery			
Office Furniture			
Other Assets			
		TOTAL	$
TOTAL	$	SURPLUS	$

Insurance carried?.....

Buys from firms named below:

NAME	ADDRESS

Write your own opinion on other side.

Salesman.....

Salesman's Report

A brief and satisfactory form for some kinds of business. It shows the salesman at a glance the important points wanted by the credit man. Note the value attached to the salesman's own opinion.

can prove that these matters exist for the customer's welfare, for the benefit of the whole industry, manufacturers, jobbers, and retailers alike. But the credit and sales departments must work in harmony and convince the salesman that these arguments are really sound and that his interest lies in supporting them. Otherwise the salesman is all too likely to form a party with the customer against the credit department. In dealing with the customer the salesman can appeal not only to his self-interest but also to his pride in conducting a shipshape business. Frequently, too, he can appeal to the customer's loyalty to the house.

How to Avoid Overstocking

Training enthusiastic salesmen not to overstock their customers is one of the hardest tasks of the credit department and an impossible task unless the sales department works in harmony. The salesman should be shown the effect of overstocking on failures, and the consequent loss of business to the house. The evils of overstocking from the point of view of the sales department, the salesman, and the customer may be summarized as follows:

First, overstocking is one of the most common causes of retail bankruptcy.

Second, bankruptcy of the retailer means the loss of goods and money to the company and the loss of an established trade outlet. It means the labor of securing a new account and the risk entailed in opening relations with an untried customer.

Third, a share of this labor and loss falls on the salesman in that territory.

Fourth, an overstocked merchant cannot buy so frequently and uses a smaller amount of goods in a season, thus being less profitable to the salesman.

Fifth, an overstocked merchant cannot grow into an out-

let for the goods of the house with more profit to the salesman.

"Our salesmen ought to say to a merchant at the end of a visit, 'Now the total of your sales is $2,400,' but does he? Not a bit of it. He knows the merchant would be terrified and would turn right around and cut down the order; whereas, perhaps if the goods were actually delivered, the merchant would grit his teeth and sell them. So the salesman waits till he gets to the next town before sending back an itemized list of purchases and even then he doesn't show the total. Of course, one result of this policy is hard collections and another is cancellations. Just now, in view of the shortage of merchandise, we cannot allow any cancellations, and so we are acknowledging all orders as soon as received, showing the totals and giving the merchant a chance to cut down." This credit manager's statement reminds us why a salesman oversells and how to correct the evil.

The Evils of a Forced Order

Few accounts are so hard to collect as those for goods which the retailer did not want to buy but had forced upon him by an overbearing salesman. However, as this is the usual excuse of unscrupulous dealers who habitually cancel many of their orders, it must be scrutinized carefully when offered. In like manner the house must make sure that no just grounds exist for offering the excuse. The retailer who cancels orders is in the same class with the woman who wears a dress to a party and sends it back to the department store the next morning. Both wish to gratify their vanity by pretending to be able to buy goods they cannot afford. The campaign against this abuse has little value unless the salesmen are thoroughly enlisted and unless they come to see that by forcing goods on customers they defeat the attempt to remedy a serious evil.

"Reselling the House"

What the salesman can accomplish in resale after delinquency, will be suggested to him by Chapters VII-XIII. As the 100 per cent representative of his house he can echo the resale policy laid down by the credit and collection department.

Adjusting Grievances

When a customer is slow in payment and resents the collection methods employed, the fault does not always lie with him and with the salesman. The reputation for hard-hearted inflexibility fixed upon the credit manager's much-enduring head is sometimes deserved. No educational campaign or set of executive orders can prevent an intelligent salesman from siding with an abused customer against the credit manager who has made arbitrary or careless rules, or who in his collection methods shows no understanding of the customer's position. But where wise policies have been adopted and have been thoroughly explained both to the salesman and to the customer, then they can see that the credit and collection departments are playing the rôle of constructive merchandisers, eager to help the retailer do the largest business consistent with sound policy. Then the salesman becomes a loyal aid to the manager and can be relied on both to educate customers to pay and to adjust grievances that arise with the credit and collection department.

Constructive Credit

The salesman who is interested in constructive credit will find Chapters XXVII and XXVIII full of suggestions. A large part of the good salesman's work has always been not only to sell the customer goods but to show him how to sell the goods.

Watching the Customer

"Vigilantia" is the watchword of the National Association of Credit Men, and vigilance must still be the keynote of the effort of the salesman, when watching the customer's character, capacity, and capital. His ear must be alert to catch the first rumblings of future bankruptcy and to protect the interests of his house.

While this is the salesman's first duty, it is not his chief opportunity. It is the negative rather than the positive aspect of his task in keeping his eye on the customer's credit. The waste resulting from lost collections, from money charged off the books, is small compared with the waste resulting from the failure to take advantage of business openings, to enlarge trade outlets, to build up better business by studying local opportunities and taking advantage of them.

The salesman is naturally eager to sell goods; he knows that the credit department is naturally eager to reduce the line of a merchant who is in difficulty. When the salesman makes up his mind that the credit and collection departments are builders of business and are eager to enlarge the line of credit of a deserving merchant, then the salesman in turn will be more interested in keeping vigilant watch on a poor-pay customer. His own interest is equally concerned in both matters.

Advising as to Collection Methods

A common part of the salesman's duty when gathering information is to discover what method of collection of the payment the customer prefers. The collection department usually keeps notations, based on their experience with individuals, of the methods which have proved most effective in each case. In gathering these notations the salesman can be of service. His opportunity is not limited to making a

pencil mark opposite the line "Does not pay draft," but through his personal acquaintance with the customer he can suggest the most effective line of approach. The salesman who has an insight into resale methods and the psychology of collections as suggested in this book, is not obliged to invent collection methods, a field in which he is not supposed to be a specialist, but has merely to suggest which method is the best. The salesman's advice on this delicate subject must of course be discounted in view of his natural tendency to leniency toward the customer.

The Salesman as Collector

The salesman's great asset in collections is his personal contact with his customers, which allows the give-and-take of conversation that letters can never quite equal. Moreover, he embodies for the customer the idea of constructive business, so that his advice as to the relation between prompt pay and good business is likely to fall on receptive ears. "I want you to pay this money," the salesman says, "so that I can sell you more goods, for certainly I'm not going to get you into trouble by loading you up with too heavy an outstanding indebtedness. In the long run that would hurt you far more than for me to press you for payment now."

If collections are to be regarded as a stern enforcement of the law, then the salesman makes a poor collector, for the reason that the retailer regards the salesman as an expert on sales; he expects him to have enthusiasm and anticipates being inspired by his enthusiasm. If he comes to look on the salesman as a man who makes trouble for him when payment is slow, he will be less willing to buy from him; his morale as a captain in the merchandising army will be badly shaken, and he will have less courage in attacking his share of the volume of goods to be distributed.

But if collection is resale, then the salesman can render

assistance in collection. Then the collector and the salesman both use the skilful, tactful approach; then the collector appeals not to fear only, but to pride, loyalty, self-interest, and other motives which feature also in making sales; then both have as their primary object, whether in collection or sales, the desire to "keep the customer." Whether the salesman is securing credit information as the basis of the first order, or is educating the customer as to terms, or is collecting difficult accounts, or is performing any other of the functions just outlined, he will be most successful when he "sells" credit or "sells" prompt payment. It is natural for him to appeal to pride and self-interest. This he can do on the occasion when his services are asked in making collections.

A Friendly Letter that Brought a Reply

The credit manager for a jobbing house has in his files a memorandum which runs as follows:

"A few weeks ago Mr. Jones asked salesman H. A. Wahl to prod one of his customers into paying us some money. Mr. Wahl thereupon wrote what strikes me as an inoffensive but effective letter. It resulted in an immediate response to our several unanswered communications.

Dear Sir:

I have not had the pleasure of calling on you for some time owing to the fact that you are considerably behind with us. I have before me a copy of the letter sent you October 6 and in it I find that you have not replied to any of the former letters we sent you. You know the feeling you would have for one of your customers who would not pay any attention to the letter you sent him. He would have some excuse, not being versed in business methods. But you are a business man, and I cannot explain to the house your not answering.

Since the past-due bills date back to January, I believe you will agree with me that our company has extended you more than ordinary business courtesy, and that they are certainly entitled to the $160.07 covering your past-due account.

I enclose addressed envelope. Please write me by return mail regarding your account. At the same time I would suggest that you mail direct to the house the amount stated above, as their letter to me takes a very firm stand.

With kindest regards,

Your friend,

"Memo. Retain the foregoing as a form and when we ask a salesman for like assistance send him this letter by way of suggestion."

Persuading Salesman to Co-operate

When salesmen are compensated on a point basis, special points can be given them for selling old customers and cutting down the turnover of trade; for a good showing in collections from their territory; for low percentage of cancellations; and for low percentage of turned-down orders. A contest on any or all of these points, and the list of winners printed in the house organ; or a chart regularly kept on the wall of the manager's office showing the relative standing of salesmen in these matters, will go a long way toward developing enthusiastic co-operation.

The sales collection, the house organ, and special bulletins to salesmen are the best mediums for proving to the salesman how he is helped by the credit manager and his staff.

Armed with figures and anecdotes of experience, a forceful credit manager stood up at a sales convention and won over the entire sales force to a belief in the need for careful collection. His chief argument, supported by case after case, was that where a customer owed money, he would not see the salesman, his orders went elsewhere, and the salesman lost percentages. In one case where an account had been outstanding for several months and the salesman could not sell the retailer because of the unpaid bill, conference with the credit manager resulted in the suggestion of instalment payments each week. Then the account was paid with-

out trouble, and the retailer at once placed his new orders.

As was said at the beginning of the chapter, the responsibility for education of the salesman lies with the credit department. Salesmen are naturally inclined to believe that if the credit man were not so unreasonably strict, he would extend a delinquent customer a little more time and a little more credit and allow the salesman to sell another bill of goods. The credit man sees that this is dangerous heresy, but he forgets that the salesman's mind is concentrated on other problems. It is his function as a specialist to help the salesman to see things from his point of view. The truths he has to utter continuously about the dangers of overstocking, and the advantages of quick turnover and prompt pay are, it is true, obvious, but what is obvious to a man in one department may seldom occur to the man in another.

Whenever an instance occurs to show how increased business or the prevention of loss has resulted from co-operation between the sales and the credit departments, the managers of both departments should note the instance in their files for the information of their organization. At each sales convention, let the salesman have a regularly appointed visit with the credit manager, just as he has with the sales and advertising manager. Credit information should be put into the sales manual. The salesman should be called into consultation in case of a difficult credit to see whether there is some basis on which shipment can be made, and to see also whether the customer can be brought on a full credit basis. Carbon copies of the letters from the credit department to customers should be sent the salesman, and in every way he should be kept in touch, while he is on his route, with the standing of the customer's account.

Proper co-operation between sales and credit results naturally from understanding the place of collection in the marketing plan.

CHAPTER XV

THE PSYCHOLOGY OF COLLECTION

Science Confirms Business Experience

The wise credit and collection man, like the wise salesman, has always studied his customers, their habits of living, of buying, of paying, of thinking. He has studied his business also in relation to his customers as to the effect it produces on their habits of living, of buying, of paying, of thinking.

This is the study of collection psychology. Psychology is merely the science of mental operations, that is, the study of the way the mind of the average person works. It has rendered great service to business, because men of trained analytic power have examined a large number of cases and have decided on a number of definite principles. This is precisely the constant practice of the skilled credit or collection man, and for that reason he has welcomed the aid of the scientist. In solving the problem of selecting from many possible steps the most effective one, science has pointed out the power of habit, the importance of securing and holding attention, the value of appeals to instincts and emotions to which nearly all men respond automatically, and the value of suggestion which sets the reader's own imagination to work. The psychologist affirms that in appraising the value of these matters his laboratory tests re-enforce the experience of the business man.

Appealing to Established Ideas

Above all, psychology emphasizes the value of appealing

Necessary in Every Letter	Desirable in Every Letter	Necessary in Early Letters	Possible in Any Letter	Background of Early Letters and Foreground of Later Letters	Possible in Later Letters	Possible at Various Times	Avoid at All Times
Secure attention	*Resell the customer your goods, credit or service (appeal to self-interest)*	Use the power of habit	Appeal to:	Appeal to fear	Appeal to shame	Appeal to:	Anger
Secure action			Good nature			Family affection	
Maintain respect	*Appeal to pride*		Fair play			Curiosity	Pity
Show fairness			Desire to avoid annoyance			Savings	Contempt
Employ surprise and impulse	*Appeal to good-will and co-operation*		Success			Acquisitiveness	
						Competition	
						Imitation	
						Patriotism	

A Chart of Collection Psychology

to established ideas. Certain ideas are much more firmly planted in our minds through long custom and use than are others. The merest reference to them will awaken associations and memories that stir us powerfully. The student of sales psychology observes that the interest of most men in their health, in their loved ones, their homes, their success, their desire to make money or to save it, has always been strong. Their minds are stored with memories of acts they have performed because of these interests. Consequently even a suggestion of these interests moves them strongly towards action. Indeed indirect suggestion may be more effective than open discussion. The latter may arouse opposition, while in the case of the former, action may follow without the realization that he has responded to any stimulus outside his own mind. He believes he has acted chiefly on his own initiative, almost unaware that he has been skilfully persuaded to act. In the language of the salesman, he thinks he has "sold himself," instead of "being sold."

Likewise the student of collection psychology learns to appeal to established ideas. He studies, first of all, the mental operation of the man who is asked to pay a bill, to discover the usual trend of his thought so as to work with it rather than against it. This has been discussed in Chapter V, "Using the Principle of Resale." Next he studies his customers to see whether there are any other motives on which they are accustomed to act, which he can use in collection. Such a motive as local pride, for instance, may never have been entered the customer's mind in connection with his payment, but this does not mean that the collection man cannot make use of it.

Establishing Impressions of Service

Finally he goes over the whole field of the relation between his house and the customer, analyzing it to find the

"established ideas," established by every year and every day of their business dealings. He realizes that the established ideas which are of use to him in collection are associated in the customer's mind with the values of goods, service, and credit. This was discussed in Chapter VII, "Selling and Re-selling Credit." And if an honest review of his customer's relations shows him that these values are not well planted as established ideas in the minds of his customers, he determines that he will plant them there by selling credit in good earnest in the future.

The use of collection psychology does not in the least interfere with the writing of "real" letters full of the personal tone. Above all other kinds, the ultra-confidential type of correspondence dealing with credit must have a personal quality. A labored and artificial use of collection appeals either in conversation or letters will never accomplish results. The chart on page 126 is not to be followed slavishly.

Psychology in an Interview

Suppose that the credit manager is receiving a call from John Jones of Peoria, who has overbought heavily, has been unable to pay for his invoices, and has in consequence found his orders for new goods cut down by the credit man. In this interview Mr. Jones is going to hear some plain truths about overbuying, and he will be told that the decision of the house is final against shipping the orders in the full dimensions that were put down by the salesman when he visited Peoria. But the credit manager has made up his mind that he is going to make Jones "feel all right about it" when their little talk is over. He finds out that Jones has been trading with his house for six years, and that his business in that time has amounted to several thousand dollars. Jones is a fine fellow personally and conducts a good store. Also he comes from a good town in a good state. "I shall show him that I

like him," thinks the credit manager, "and that we appreciate his business." In other words, he will make liberal use of the appeal to pride. It will be accident insurance too, if Jones happens to be angry.

Jones's mind is fixed on two things: the letter he received telling him his orders could not be shipped, and the money he is going to lose by not having those goods to sell at the right time. So the manager determines to side-track any talk about that letter, if possible, until Jones is in a more friendly mood; and he determines to make Jones see that he will lose more money by overbuying and allowing goods to grow stale on his shelves than he will by ordering less than he really needs and then reordering, provided the state of his account makes reordering allowable. In other words, if the credit man can succeed in making Jones believe that he is really interested in the latter's welfare, he will appeal strongly to his self-interest through the money-making instinct. Also the credit man decides that this situation is not going to happen again with Jones if he can help it. He is going to make him understand the position of the house and will remind him, gently but firmly, of the many letters they have exchanged on this subject during the last three years. The problem is how to do this without making Jones "sore."

If the credit man is possessed of the supertact that every man in his position ought to have, he will so manage that interview that Jones will not feel that he has been lectured like a schoolboy and taught his A B C's, or that the credit man is "butting in," and "trying to run his business." Not at all. When the glass door of the office closes behind Mr. Jones, that gentleman will return to Peoria, proud of being taken into the credit man's confidence and of being shown the inner workings of a credit business of great magnitude; proud too, of being one of a comparatively small number of men, who in the judgment of this experienced merchandiser, are able

to appreciate and to apply to the running of their stores the underlying principles of this line of business.

He is perhaps a trifle ashamed of himself, as he sits in the parlor car southward bound, but he is uplifted by a due confidence in himself, and he is thinking over those plans for reducing his stock, which in conference with the sales manager have been worked out to meet his exact problem. And the final thought of Mr. Jones is, "Smith and Company certainly do believe in treating people right."

What Appeals Were Used?

This incident, imaginary, but nevertheless typical, shows the credit manager in his rôle of selling credit. He has won success in this case by a study of his customer's psychology, by appealing, above all, to his pride and his self-interest or his desire to make money, by appealing a little to his shame, a little to his sense of fear, a great deal to his good-will and his sense of fair play, perhaps somewhat also to his local pride. He has concentrated Jones's mind on the desired ideas and has avoided emphasis on any ideas that would conflict with the action he wishes Jones to take. Finally he has made that action easy for Jones and has linked it with a powerful appeal to good-will by showing him a good way to reduce his stock and his present indebtedness at the same time.

Psychology in a Retail Credit Interview

Or let us examine the use of collection psychology made by a retail merchant in talking with a slow-paying customer coming into the store. "Will you let me have something on account, Mr. Robinson? You know that account of yours has been running along quite a while now, and I really ought to clear my books. We merchants have got to keep our expense of doing business down as low as possible these days with prices so high, or else we shall have to mark up the prices

on our goods. The people we buy from are pressing us harder all the time and we've got to keep them paid up or else we won't be able to get the best class of goods, and to give the kind of service we like to show our customers. I tell you, running a retail store is pretty much of a science nowadays, and you have to watch every penny.

"Also we are trying to put in improvements all the time to show our appreciation of the good trade we get, and that costs money too. How did you like those new display cases? We've got it figured out now so the customers can come in here and look at the goods themselves without having all sorts of counters in the way. It's more sanitary too, to have these tables, because dirt doesn't collect behind them and there is no place where a lazy clerk may put odds and ends of things away.

"I'll tell you another thing, Mr. Robinson. What I'm afraid of is, that unless I get that account paid up, you'll stop doing business here. I don't want you thinking about the account every time you come into the store. I just want you to think that this is the place where you like to do your buying, because you find the goods you want and the clerks give you attentive service. And if you want to ask about anything or if there are any of our goods that aren't giving satisfaction, I want you to feel like coming and talking it over with me personally and giving me a chance to do the right thing by you. If you could give me ten dollars on account right now and, say, half of the balance of it on the first of the month, and the rest on the first of the next month, we'd get it all cleaned up without giving you any inconvenience. All *right,* Mr. Robinson, thank you, sir." And then he changes the subject.

This typical interview bristles with "appeals to pride and self-interest," and "resells" the customer in such a way as to make him a thousand per cent better patron of the store.

Psychology in Handling "Dead-Beats"

The merchant, whether wholesaler or retailer, who discovers too late that he has sold goods to someone who comes perilously near to being in the dead-beat class, or the collector or attorney who has to approach a person of this type, is easily persuaded of the value of collection psychology for this particular task. The appeal to fear is the most potent in such cases, but how shall this appeal be managed? The poor-pay customer is not easily frightened. He is either sufficiently callous by nature or indifferent through experience, so as to be unmoved by ordinary collection appeals. The collector who can thoroughly understand this type of mind, who can outguess it and surprise it, will be able to score a victory where others have failed. Frankness without bluster; swift and determined advance from stage to stage of the collection procedure; occasional appeals to pride or self-interest while the stern pressure of the appeal to fear is relaxed for the moment; these methods convince the tough-minded delinquent that he has met his master and that to resist payment further will be too expensive.

Psychology in Letters

To utilize these collection appeals in correspondence is no more difficult than to use them in an interview. The letter-writer must judge of the situation, fix his mind on the end to be attained, canvass the means at his disposal for attaining that end, and then write the letter much as he would conduct the interview, except that the letter will be vastly briefer. (See Chapters XIX and XXXIX.)

As a matter of fact, the phrases and ideas which have proved successful in collection correspondence have in nearly every case been adapted from personal interviews. Incidentally, it does not pay to make a collection interview long-winded, any more than to write long collection letters.

The Personality Behind the Appeal

It makes a difference who uses the collection appeal. The bookkeeper, for instance, typifies a definite routine and clock-like regularity. He personifies the accuracy back of the ledger record which makes certain that shallow claims of discrepancy will be promptly refuted. He personifies, also, the mechanical advancement of the collection process. If he says, "This account will be handed to the collection department in ten days," or to the credit manager, as the case may be, the delinquent knows that it is useless to attempt to stay that action. A bookkeeper's duties are performed according to the orders of his superior officers, and appeals to him will have no effect. A letter issued by the bookkeeper and signed with the company's name, without the bookkeeper's name, may appeal by suggestion to pride or good-will, etc. In such cases these letters typify the house in its general, impersonal relation and usually produce a definite effect.

If the credit manager in person signs a letter, the communication then typifies the house in its personal relation with the customer. The manager's greater authority invests with more force any appeal which his letter contains. An appeal to pride made by the bookkeeper, or an attorney, or a collection agency whose only interest is in getting the money, though it has effect, produces less than an appeal from an official of influence and prestige. No man's good opinion of us is contemptible, but the good opinion of the mighty is worth more as an incentive to our actions. An appeal to self-interest, an offer of service or leniency, comes with more force from an officer who has the authority to dispense substantial favors. The salesman, too, has his peculiar value as the source of collection appeals. (See page 121.) Above all it must be noticed that all varieties of the resale argument come with infinitely more force from the house itself than from any outside agency of collection.

The "Tone" of the Appeal—Diplomacy

Not only is there a difference in "who makes the appeal" but also in "how it is made." "Young collection men," said an experienced manager, "are almost always too severe in the way they turn a man down or try to collect money. The collection cocktail they compound has too much bitters in it. A skilful dash of the appeal to fear, mixed with a large proportion of appeals to pride and self-interest, makes the right combination in most cases."

A credit manager said to one of his assistants before an interview with a patron from out of town, "I'm going to scare this fellow a little." But the way he did it was a revelation in tact to the assistant. Real sympathy and understanding of the case and genuine desire to be of service, together with a definite knowledge of just how far to go in standing up for the creditor's rights, are necessary if one is to gage successfully the amount of pressure or leniency to be accorded in any individual instance. The heavy-footed, tactless man of dull perceptions and slow sympathies makes a poor wielder of collection appeals. Clumsy appeals to good-will may become meaningless flattery, which forfeits the delinquent's respect, encourages him to resist payment, and makes it necessary to use severe methods, which in turn will forfeit his good-will. The collection man is a diplomat of business, dealing with very delicate matters, and the heavy-footed diplomat is a veritable bull in a china-shop. Here again the advantage lies entirely with the house which makes its own collections, because the usual collector, accustomed to deal chiefly with tough cases, is in most instances a poor diplomat. Of course there is no reason why the outside collector cannot be a skilled and successful handler of collections in the early stages of delinquency. And it is very often true that he has more skill and tact than the collection department of the creditor house, simply because he has made more careful study of collections.

Methods Useful in Any Business

Most collection appeals find their way sooner or later into letters, partly because nine-tenths of all business is done by letters, partly because business men are constantly learning to write better letters. Accordingly, in the following discussion of collection appeals, a very extended analysis has been made of letters and forms of all kinds, as well as of word-of-mouth arguments and appeals used by collection men in every line of business. It would be highly illuminating if it were possible to write down the names of firms and individuals, in every case, who have used the material given herewith. If this record could be presented it would go far to prove the statement that the underlying principles of all business are identical, for in an indefinite number of cases the same method has been employed by firms of entirely different lines of business and with every complexion and shade of collection problems. The difference lay in the procedure of these houses, that is to say, in the stage of the collection program at which they used these various methods and appeals, in the number of letters issued, the general tone and style adopted, and the length of time allowed to elapse before proceeding to severe measures.

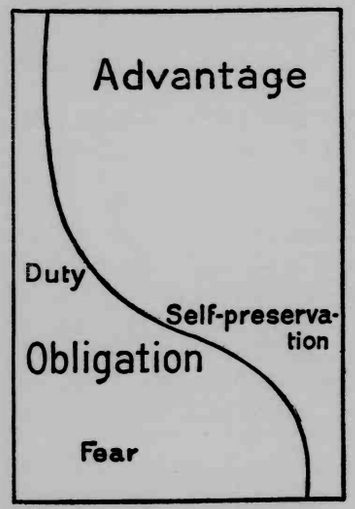
In general the research undertaken in the preparation of this book indicates plainly that the most skilful and consistent use of collection appeals is being made by those houses which are endeavoring to educate their customers in living up to the terms laid down and to reduce their overdue outstanding indebtedness without forfeiting the good-will of their trade.

The moral would seem to be that every collection method should be known to a credit or collection man, because while he may not be able to use it precisely as someone else does, he may be able to change and adapt it to some situation in his own collection problems.

Requisites of a Good Collection Letter

Every collection letter should get the *attention* of its readers. It should use the power of *habit.* It should always endeavor to *secure action.*

In all his efforts the collection man should arouse *respect.* He should show *fairness* in every step.



Advantage yields to obligation as the procedure advances. (Read from top to bottom.)

All his appeals to customers are expressed in the two terms, *obligation* and *advantage.* The former lies in the background during the entire collection procedure, becoming more important as it goes on, but not omitted even at the beginning; the latter is more important at the beginning, yielding place to obligation towards the end.

In the earliest stages of his procedure, he can appeal to *pride,* either personal, local, or sectional; to *self-interest* through the *resale* of credit or goods; to *savings,* expressed in the desire for discount; and to *good-will* and *co-operation.*

Appeals which begin to imply a trifle more of duty and a trifle less of advantage are those to *good nature* and the sense of *fairness* or *fair play* in the customer. In a class by itself is the appeal to the *desire to avoid annoyance,* in which duty and advantage are almost equally blended. Then come appeals to *shame* and *fear;* in this connection it is sometimes

possible to use *curiosity* and *family affection.* Under certain circumstances appeals can be made to the sense of *honesty*—which must not be confused with pride,—and to *savings* expressed through the desire to avoid the cost of certain collection methods, or *acquisitiveness* through the desire for some discount or bonus given for closing up an overdue account. The desire for *success* may be appealed to in varying forms at varying stages of the procedure.

Emotions carefully to be avoided are *anger,* which arouses opposition and delays the payment; and *pity,* which destroys the sense of respect and fear, because the person who feels pity has less feeling of duty or obligation to the object of his pity. *Contempt* must be avoided for the same reason.

Through employment of variety, he must use the principle of *surprise* and *impulse.*

Attention Value

Especially in collecting petty accounts or in dealing with careless debtors, attention value is important in the collection procedure. A letter, being more personal, gets more attention than a statement. But there are many ways of giving attention values to the statements or even to the invoice. Explanation of terms in simple language and in type large enough to be easily read, set apart from other printed matter, makes the terms hard to overlook. On a second statement these can be printed in red ink or on a printed card calling attention to them. A reminder printed at the bottom of the statement is more easily seen if put in legible type. It can be set "on the bias," or a line drawn around it in blue pencil. Or, the statement may contain a question mark and the credit man's initials in blue pencil. The word "over" in ordinary sized type at the bottom may call attention to a statement of terms on the back or to some printed news item, quotation, epigram, bit of verse, etc., bearing on credits or collection.

The appearance of a letter has much to do with its attention value. Neatness in typing, good margins, a good letterhead, and respectable paper stock entitle the letter to attention. Beginning with a story or with some striking remark or with a phrase that cuts like the lash of a whip are means of preventing the reader's eye from glancing too easily over the page. A question is a better attention-getter than a plain statement. Short sentences, short paragraphs, simple language, make easy reading and so invite attention. Tabulated material, especially if listed one, two, three, etc., attracts attention by reason of a margin wider than the other parts of the letter.

A typewritten letter gets better attention than a printed or multigraphed letter, and consequently it is advisable, if forms are required, to use short forms, each individually typed, or paragraph forms, each individually typed, or to run the letters on the automatic typewriter.

Personal Reference in Letters

One of the very best means of securing attention is to mention toward the beginning of the letter the man's name, some fact about his business, or his orders, that sets the letter apart from the usual run of stereotyped, generalized collection letters. For example, "It was a great pleasure to receive your nice order for ....., but we confess that when we filled it and checked it for shipment we hardly anticipated being obliged to wait more than 60 days, as we have done, for payment after the time it was due," or "You, yourself, Mr. Smith, as treasurer of the X Y Z Corporation, understand the necessity for prompt payments, and I am sure you enforce them in your business." Simple references like these can be put into form letters. (See Chapter XXXIX.) In dictated letters the reader's interest will be aroused in proportion as he sees that the writer is familiar with the details

of his personal situation. These personal references usually arouse pride also.

After a short reminder, to use a longer letter is a good means of getting attention, especially if the latter part of this letter contains some striking statement.

The collector, the draft, and the telegram have as their chief value their demand on the debtor's attention. He cannot overlook them. Statements may lie in a scattered heap on his desk, collection letters may be thrown down as soon as he discovers their nature, or even before he has opened the envelope; but no matter how careless or indolent he may be, the telegram finds him out, the draft at least demands some action, and the collector is too big to be thrown into the waste-basket. Probably the amount of fear connected with any of these three methods is not very great, and they serve their chief function as attention-getters.

Varied methods which surprise the debtor because they are out of the ordinary routine have attention value, as explained in the section on "Surprise and Impulse," page 175. A collection man who has reason to believe that in any case his letters are being overlooked, or who finds that his early reminders do not bring so high a percentage of replies as they should, may try to get attention by more direct use of some of the appeals discussed in this chapter. He may cast his argument into the form of a story, or he may even try various "stunt" methods such as humorous stories, "freak" circulars, queer letter heads, and so forth.

Objection to Freak Letters

But the objection to freakish methods in collection as in sales is, first, that they attract attention to themselves and not to the action desired; second, they cannot be kept up indefinitely because any one of them soon loses its novelty, and the credit man's invention in thinking up others is soon ex-

hausted. On the other hand, the sound, fundamental reasons for requesting or requiring payments are always serviceable, can always be presented in new and interesting forms, and best of all, they rest on a basis of genuine fact, on the actual relation between buyer and seller. There is serious danger that freakish methods may smack of excuses, as if the creditor were ashamed or afraid to approach the delinquent directly. It cannot be said that such methods should never be used; as soon as anyone tries to lay down an absolute rule in any direction, some clever person makes a startling success by breaking that rule in a new and interesting fashion. But stunts are always dangerous and in any but the smallest percentage of cases should be unnecessary.

The Attention Value of Curiosity

A letter beginning with a news item or a story excites the reader's curiosity and is likely to make him finish the letter because he cannot tell precisely what is coming. Aside from this it is doubtful whether curiosity is an instinct of much value to the collector, the appeals sometimes listed under this head belonging rather to some form of the appeal to fear. (See page 171.)

CHAPTER XVI

APPEALS TO GOOD CUSTOMERS

The Value of Habit

The collection man who employs a good system, and who follows up accounts promptly and regularly, never allowing interference with routine, avails himself of the power of habit in the customer by securing action always at a fixed time, and by building up a custom of payment which is hard to break, until it becomes more natural to take the action than to omit it.

The purpose of reminders should be to reinforce this power of habit by suggesting that the account has been overlooked, that some subordinate has failed in his routine. "The bookkeeper in the press of work has omitted to send your customary check," or some similar phrase suggesting the re-establishment of the usual habit.

For the same reason it is not advisable unless terms are very urgent indeed to pay marked attention to early delinquency. To do so gets the debtor to thinking about it, and raises the issue in his mind, "Shall I pay this bill, or shall I postpone payment?". If the question is not raised, the bill is more likely to be paid than not.

Making Action Automatic

Habit is one of the most potent factors in our lives, and it is all-important to the collection man. The sooner he can get his account transferred in the debtor's mind from the list of those things which require special thought and consideration, to the list of those things which are done auto-

matically, the better for him. Ideally, therefore, all his collection methods should be designed to establish right habits of payment in his customers and to maintain them.

For this reason it is a good thing to show surprise when the payment is so far overdue as to require serious attention; because this suggests strongly that the normal course of things be resumed. Shall the credit man take this lapse from good habits seriously, or with a spice of humorous annoyance, like the credit man who wrote "There seems to be a monkey-wrench in the gear box somewhere. Will you take it out by sending your usual prompt check, and letting the machinery run on as usual, with satisfaction to all concerned?" This is a question which different men will answer in different ways.

Creating Bad Habits

Bad habits may be started if the creditor allows a bonus or discount for prompt payment. Instalment houses handling small accounts by mail sometimes use this method to clean up an account and get rid of a risky customer. A stereotyped series of statements, letters, or drafts, gets the customer into the habit of waiting for severe action.

Obtaining Payment or Explanation

The object of every step in collection is to obtain either a payment, or an explanation letting you know just what to expect; that is, making a definite arrangement for settlement. Specific action is looked for from each letter or statement, and consequently a specific request should be made as clearly as possible at the end of the letter. This action may be mentioned elsewhere in the letter, for instance, at the beginning; but in nearly all cases it should also come at the end. Specific language picturing the action taken helps the reader to "see himself doing it," and aids his imagination.

"Don't bother to write a letter; just put your check in this envelope and send it back before you forget it," or "Wrap a bill in this letter," or "Use the enclosed coin card—that makes it easy to pay this small account"—such suggestions are especially useful in collecting petty accounts.

Requests for explanation or reply can be accompanied by the suggestion, "Just write it on the bottom of this sheet," or "the back of this sheet." Some firms with a great volume of small accounts use multigraphed letters with questions, etc., in a space at the bottom of the sheet, followed by dotted lines for the answer.

"Letting Him Down Easy"

All assumptions favorable to the customer and providing a courteous reason why he probably has not made payment are "action-getters," because rather than make uncomfortable explanations the delinquent will postpone payment still further. But when relieved from that unpleasant necessity, he is far more likely to pay. All suggestions of leniency following on veiled threats, are means of inducing action, because they suggest, "Repent while there is time, lest a worse thing befall you." In general, every specific appeal discussed in this chapter has for its primary purpose the securing of action, by providing an incentive strong enough to overcome the reasons for further delay. It must not be thought that they are mere courteous expedients adopted in the fear of giving offense. It is true they should be so used as constantly to resell the customer, and to make for better and more profitable relations; but they are always chosen to secure the promptest and most satisfactory action from the individual addressed.

Finally, it is often necessary to allow part payments or an extension of time in order to make action possible for a debtor who would find it quite impossible to pay at once.

Suggest Action by a Story

If a story or news item is to be used, try to put into it what salesmen know as "action suggestion." That is, let it show someone performing an action similar to the one the writer wishes the reader to take. The story of how someone made a payment and the check passed from hand to hand paying other bills, until at last it came back to the man from whom it started, not only resells the principle of credit, but gives a picture of someone paying a bill, and suggests, "Go and do thou likewise." The story of how "Pay-Up Week" succeeded in some town, presents a similar picture.

Maintaining Respect

The basis of all sense of obligation is respect for one's self and for the person to whom the obligation is due. A creditor who forfeits his customer's respect has in most cases totally destroyed his customer's sense of obligation, because a delinquent debtor is unlikely to pay his bills from a sense of self-respect alone. This respect, moreover, is founded on a wholesome fear of the creditor's strength, and if respect is gone, fear will go with it, threats will be of little use, and the creditor will be driven to use the harsh methods which may get the money but which destroy good-will. This is the great argument against using dull and mechanical collection letters which carry a poor impression of the creditor's ability. Cheap "stunts," funny stories, bonuses for prompt payment, or violent language and bluster, destroy respect and make the debtor feel, "There's no need to pay attention to what those fellows write you." Then in order to show that he means business, the creditor will be obliged to resort to suit.

With the destruction of respect, comes contempt, which postpones action.

Loss of Respect Means Loss of Trade

Even more important than any of the foregoing reasons for maintaining respect, is the one that all good credit men are fond of insisting upon, namely, that a customer who has lost respect for a house will not wish to trade with it further. The loss of future orders is even more serious than the loss of the present account.

Businesslike methods, efficient system, promptness and regularity in collections, definite advance from stage to stage of the proceedings, engender respect. Unhesitating insistence on the creditor's rights and willingness to proceed to suit, or to hunt a rascal over the face of a continent without regard to expense, for the sake of making an example to wrong-doers, is absolutely necessary if a house is to maintain the respect of a certain class of unscrupulous customers. It is this reason which makes it worth while sometimes to spend many times the amount at issue in securing a judgment from a debtor.

Restraint in language, courtesy, understatement rather than overstatement, guarded language when referring to harsh steps that may be taken in the future, all these are indicative of strength rather than weakness, and produce respect.

Showing Fairness

The creditor who is not fair arouses resentment and anger, emotions which postpone payment instead of securing it. Unfairness is likely to destroy the legal strength of the creditor's position. If there is a mistake in the statement of account or if the goods can be proved unsatisfactory or not up to sample, the account cannot be collected. Accordingly the first collection letter either should ask whether there is any mistake or misunderstanding, or should say, "Inasmuch as we have not heard from you in response to either of the

statements sent you, we assume that there is no misunderstanding or discrepancy, and that this omission of your customary payment is merely an oversight, which you wi'l remedy by sending us a check on receipt of this letter."

A distinction is drawn in this chapter between showing fairness on the part of the creditor, and appealing to the sense of fairness or fair play in the debtor. The first should be shown throughout the entire collection procedure; the second is a special appeal which will be taken up in due course.

Later in the series the collection man can, with good effect, claim credit for the fairness he has shown, thus appealing to shame. If he says, "It is our belief that we have been very patient with you," he awakens fear; while if he goes further and says, "We must tell you frankly that our patience is pretty nearly exhausted," the appeal to fear is still stronger.

Aiding to Restore a Rating

"I impress my fairness and good-will on my customers," says a credit manager of widely-known constructive policies, "by writing to them if I see their ratings in Dun's or Bradstreet's have been reduced. I ask them if they know the basis for the action, and offer every legitimate help in getting their standing restored. It is possible that an injustice has been done, and then my aid is appreciated. On the other hand, if the reduction is justified, I have a splendid chance to give constructive suggestions as to business policies that will restore them to their former standing."

"Help Us Protect Your Standing"

What would you do if you received a letter from your creditor, saying, "We have received a letter from (naming some outside agency or some other house) which indicates that your name is being made the subject of inquiry from the trade, and it occurs to us that in fairness to you we should write and suggest the payment of the pending invoices now considerably overdue in order that we may be able to make a satisfactory reply?" This shows the creditor's fairness and awakens a sense of gratitude. Such a letter is regularly used by at least one credit manager before turning the account over to an outside agency for collection. At the time he sends the letter, he instructs the agency in question to make inquiries regarding the delinquent, so that whether or not his letter meets with response, his inquiries will be of service in regard to further steps he may take.

Obligation and Advantage

The customer *must* pay—it is also to his advantage to pay. Which reason will get the money quicker? The collection man who believes in resale argues that more flies are caught with sugar than with vinegar, and while he keeps the debtor's obligation in his mind, he impresses on him from every angle advantages to be secured by prompt payment. All the appeals in this chapter, except those to shame and fear, are made to the desire to secure some advantage. As the diagram on page 136 shows, obligation is felt at first only as a moral duty—a personal feeling—later in its full force as an obligation assumed under contract, and finally passes into fear of consequences. Advantages to be secured by payment become fewer as delinquency grows, until the only one left is self-preservation, the escape with a whole skin.

The diagram should be kept in mind when planning letters, at different stages of the procedure, based on the appeals here discussed.

The Appeal to Pride

The appeal to pride is, in the judgment of the writer, next to resale (the appeal to self-interest) the most useful of all that can be employed in collections. It may be used in an indefinite number of ways. All resale arguments, whether applied to credit or merchandise; all offers of leniency, especially when they come from a responsible official of the house; expressions of pleasure regarding the business relations between the creditor and the customer, can be made to appeal strongly to pride. The appeal may be made at any stage in the collection procedure, from the first interview in which the credit man "sells credit" down to the time when the creditor has instituted suit, and makes a last appeal to pride in order to prevent final action being taken. All appeals to the debtor's self-interest can be made to awaken pride. Sometimes the appeal to self-interest goes hand in hand with fear rather than with pride, when the only advantage which his payment will secure is the saving of his skin; but even at the last stage of operations it can be suggested that payment will not only save the cost and disgrace of court proceedings, but will reinstate the debtor in the good opinion of the creditor—which appeals to his pride.

If the appeal to pride is overdone, and becomes flattery, it arouses contempt, and defeats its own ends.

Phrases That Appeal to Pride

A courteous, respectful tone in collection letters appeals to pride by showing that though payment is overdue the firm still desires to maintain friendly relations. "Doubtless this is an oversight"—"Your statement has been overlooked during this busy season"—"Such oversight happens sometimes with the best of customers"—"Don't bother to explain, we know how it happens ourselves"—these phrases

show confidence in the customer's good intentions. A request that he send in an order with his check, a paragraph of sales material in the letter, or such a sentence as "The sales manager of your territory, Mr. Johnson, tells me it's about time he had an order from you," or an envelope insert from the sales department; all these are selling devices showing desire for the customer's trade and appealing to his pride.

References to "our good customers"—"the high class of our trade"—"We take pride in the people we do business with—"our good friends"—these awaken pride. Appeals made "as one business man talking to another" call forth pride by putting customer and seller on an equal footing, and show frankness as well. The expressed desire to "re-establish cordial relations" arouses pride as well as self-interest.

Still appealing to pride, but with more emphasis, is the statement, "We do not for one moment suppose that this reflects the methods of your office, but we do not doubt some subordinate has been failing to give this matter proper attention. We should like to see it brought to the notice of the proper official of the house." An anecdote can be told showing how such an occurrence happened to some other house in the writer's experience.

Urging the Discount

When urging a merchant to discount his bills, the explanation of the opportunity should be made in such a way as to appeal not only to self-interest through the savings instinct, but also to pride. A merchant should never feel that he is being "ridden" for not discounting. "Our patrons find that they can afford to borrow at the bank in order to secure our discount," is a statement that can be followed by detailed explanation of just why this is possible. "We

feel we may rely upon you now to help us maintain your standard of payment on your account," is useful in instalment letters, but it can be adapted to any purpose. "Our past relations have inspired confidence in your integrity and ability to pay," contains just a suggestion that the opposite of integrity may exist. All reference to past cordial relations and to the good business transacted in itself arouses pride, as does also a reference to "your usual promptness."

Asking for His Own Judgment

A good effect is produced at the end of a letter by the phrase, "You may be sure your courtesy will be appreciated," or by the signature, "Respectfully yours." To refer the matter to the debtor's own judgment, as, "You will doubtless agree with us that our terms are unusually liberal," or "that the payment is considerably overdue and should now be made without delay," not only shows fairness but is so courteous as to awaken pride. "It is our belief that you are just as anxious to clear up any past-due items as we are to have them balanced"—"You would not think well of our business methods if we allowed you to forget the account"—"You value a clean record; we prize your good-will"—are sentences which awaken pride by showing deference for the customer's opinion. "We do not care to think that your failure to pay is intentional," contains a sting, but still shows esteem.

The customer's pride in his own business dealings can be referred to effectively, "You run your affairs efficiently" —"You maintain a standard of prompt collections"—are very useful forms of this appeal.

Local Pride

Local pride or sectional pride can be made use of. "We have heard a good deal about the way they run things in

Detroit," wrote one manager, "and we don't believe they got this reputation by overlooking settlement of their invoices." East and West, North and South, each can use semi-humorous reference to the other's enviable record. Sometimes financial conditions affect a wide section, making payments difficult, and the pluck and pride of the whole district can be encouraged in correspondence from the credit man.

Granting Extensions

When granting part payment or an extension of time in most cases a strong appeal to pride should be made in order to bolster up the customer's sense of obligation. "We take great pleasure in granting the favor you ask," the credit man can say, "because we are well assured that you are worthy of the confidence"; or, "It is a pleasure to find ourselves in the position to do as you request and to feel that this is no more than the due of one with whom our past dealings have been so unusually pleasant." The same is true when an extension of time is granted. To accede grudgingly to a favor robs it of the good-will element and the recipient feels much less sense of obligation.

Showing Confidence

In serious collection correspondence after the delinquency has passed the "reminder" stage, such phrases as "We wish to take up with you frankly"—"a frank attitude"—"It occurred to us you would respond to a straight-from-the shoulder request for payment"—imply that the creditor has a high opinion of the debtor. "When we shipped our goods, we expressed our confidence in you," reminds the debtor of the good opinion he is in danger of forfeiting. If the letter goes on to express disappointment, it appeals to shame as well, while if it contains a courteous, deferential explanation of the basis for credit, it appeals still more

strongly to pride. All resale of credit principles, such as explanation for the need of prompt settlement of account, is, as has been said before, an appeal to pride, by showing confidence in the customer's willingness to take the right action when once he understands the matter rightly.

"Get On Your Feet Again"

"Pay this old account and clean off the slate; then you can get a new start," is an appeal much used by instalment collectors which holds out the hope of reinstatement in the creditor's good esteem. A similar statement is, "No greater asset to a business man exists than the proved ability to overcome handicaps and live up to the arrangement he has made." This idea is used with splendid effect by a certain jobber in dealing with discouraged merchants, and some application of it can be made to almost every kind of business. Indeed, all the work of constructive credit should be so conducted as to appeal to pride with no suggestion of shame. Likewise, such co-operative collection methods as "Pay-Up Week" and "Nimble-Dollar Day" which involve the resale of the credit principle and have besides a strong element of good-natured rivalry, should always be so managed that it is a badge of honor to pay one's bills rather than a mark of shame to be found out as one who has not paid.

The frank statement that confidence is being undermined by the debtor's action, "Conditions have actually reached the point where we are losing confidence, and that is something we do not want to happen," helps the debtor to realize the worth of the asset he is throwing away. Appreciation of the customer's efforts, of payments or promises he has made, or good intentions expressed, appeal to his pride by recognizing his honest purpose.

Even the man who abuses the discount privilege can be

appealed to through the sense of pride, although an endeavor to shame him out of his practice is a natural appeal to choose. "We take pride in our customers and are loath to believe that one of them would intentionally take what did not belong to him. Consequently we prefer to believe that some subordinate has been following this practice," is a sentence from a letter on this subject, calculated to awaken whatever pride a house may have.

Courtesy Awakens Pride

Above all else, it is the courteous and considerate attitude taken in collection letters or in credit correspondence which makes the customer feel that he is being treated as an honorable citizen and a good business man. It appeals to his moral sense as strongly as would a direct accusation of wrong-doing, and it has the advantage of not arousing his anger and opposition. It retains and builds good-will. Finally, the appeal to pride is based on the unfortunate fact that in America carelessness in payment and even failure to respond to collection letters are often characteristic of men who in other respects are strictly honorable and would not tolerate a slight upon their integrity. The appeal to their pride simply reminds them that to classify themselves as "slow pay" does not accord with their high standing in other particulars. The appeal to pride goes hand in hand with the appeal to self-interest. It is part of the campaign of education to show merchants the meaning and value of the credit system.

Resale—The Appeal to Self-Interest

As has just been said, the campaign of education to show a merchant what the credit system means to him, or how his prosperity is affected by his good relations with his creditors, should be so handled as to appeal to his sense of

self-interest and seldom to a sense of shame or fear. Most of the available suggestions for letters on this subject will be found in Chapters VII to XIII, inclusive, and Chapters XXVII and XXVIII on constructive credits, as well as in the earlier part of the present chapter. "We must practice good business methods to be able to sell good merchandise at a low price," is a sentence included by one firm in its early reminders. In showing the advantage to the customer of prompt pay, one retailer writes, "My prices are all figured on a cash basis, so I must see that my book accounts never represent a large percentage of my income from this business." Brief suggestions of resale ideas can be printed on stickers pasted to statements or included in early short collection letters, while more serious explanations of these matters can be entered into when the bill is so far overdue that the assumption of an oversight or carelessness can no longer be maintained.

As pointed out in Chapters XVIII to XXV dealing with procedure, it is probably true that a customer who withholds payment does so because he wants the money, and it is logical to show him that his real advantage lies in prompt payment. Letters of this sort are very effective in getting an answer, on the basis of which satisfactory arrangements can be made.

There is a shrewd suggestion that future orders may be held up or credit cut down in the sentence, "We want to make it possible for you to continue to get the benefit of our goods and service," though the primary force of it is to resell the benefit mentioned. A milder form of the same idea and one which appeals as well to pride and the desire to succeed is the statement, "We are genuinely interested in your success, and desire to have you maintain your record of payment with us in order to prepare the way for even larger and more profitable business dealings than those we have enjoyed in the past." The reference to larger dealings must be employed, of course, only with merchants whom the house knows to be really worthy of such a sign of confidence.

Appeals to Good-Will

The house can rely on the good-will of its customers to help it out in a tight place, and under ordinary conditions it can appeal to the same feeling to aid it in maintaining a businesslike promptness. Many houses use the phrase, "We rely on the good-will of our customers to repair these little oversights on being reminded of them," suggesting both good-will and pride. "The largest percentage of our friends who do not discount pay on receipt of the statement," makes use of the word "friends" to suggest good-will.

An Urgent Need

Suppose a house suddenly finds itself hard pressed for money. Calls are coming in from every quarter. Unforeseen difficulties have been met with. The usual sources of relief are, for one reason or another, blocked. Under such circumstances an executive who sits down and writes a frank statement of the case to his customers who owe him money, and appeals to them on the score of their good-will established through many years of pleasant dealings, is likely to receive a generous response. The letter should carefully avoid all suggestion that the writer is "on the rocks," for if his customers get the impression that he is going to fail, anyway, some of them may be selfish enough to hold off a little longer. The appeal to pity seldom succeeds. Good-will must in this case be combined with the sense of self-advantage, making the man's customers feel that by helping him to get on his feet again they will have the benefit of more good business with him in the future.

In the same way a retailer can say to a customer that

he has a heavy bill to meet—will his friend help him out with something on account?

Avoid "Poor Mouth"

All suggestion of "poor mouth," implying that the money is desperately needed, should be carefully excluded from collection letters because most readers will not believe it and if they do, they will not wish to continue trading with such a weak house. No excuses or apologies should ever be offered, but the real reason underlying collections, the constant need of payment to maintain the credit system, can be unhesitatingly set forth.

"Co-operation" a Magic Word

The word "co-operation" is full of magic today, thanks to the gradual acceptance by the business world of the fact that the old day of cut-throat competition is gone for good, and that men are more advantaged by standing shoulder to shoulder—as they should in a democracy. A request for co-operation can be used in any letter; it is a fine substitute for the cry, "We need the money," being at once more dignified and better founded on fact. It reminds the delinquent of the nature of the credit system, which without co-operation could not exist a day. A longer letter "selling the idea" of co-operation, or a printed insert sent with a statement, will help to plant the thought in a customer's mind. "We rely on your co-operation in keeping your account within the limit agreed upon," shows one use of this appeal.

CHAPTER XVII

APPEALS TO THICK-SKINNED CUSTOMERS

Varying the Appeal

All the foregoing appeals are based on the assumption that the customer has a strong sense of honor and pride, and is able to understand the nature of the credit obligation. They produce a powerful effect on a different class of customers when combined with other appeals, as we shall see. The following appeals to good nature, fair play, the desire to avoid annoyance, the sense of shame, and the sense of fear, may be used from the beginning with the thick-skinned or slow-paying customer or in dealing with any type of customer who, through his failure to respond to other kinds of letters has classified himself as poor pay.

Appeal to Good Nature

A great many men will respond quickly to a tone of good nature used at a time when the creditor has every right to use severe methods. "Oh, well, what's the use of getting angry about this?" the creditor seems to say. "You are probably a pretty good fellow and I have confidence you will pay."

The great success of letters with a good-natured anecdote or a little humorous dialogue is due to the fact that there are many stubborn people in the world, who like to show that they are "as good as the next man" by not responding promptly to their obligations. There is no use in being angry with these so-called "independent" people, and a good-natured attitude can be adopted even when sending a draft or giving notice of an attorney's call. "Having had no reply

to our letter," wrote one house to a customer of this kind, "we have today turned our account over to Blank and Blank, attorneys of your city, with instructions to begin court proceedings immediately. We take it that in so doing we are proceeding in accordance with your own wishes, and that this way of settlement, while not the one we should choose, is based on your preferences. With best wishes, Very truly yours." This letter tickled the customer's sense of humor so much that he sent in his check by return mail and has since kept up his business with this house.

The "crying-face" stamp or paster on the statement, and the "smiling face" on the receipted bill do not represent a very high grade of humor, but in many cases they seem to "get the money." "The policy of the house demands that we follow up these matters, but we would much rather put our efforts into giving you and the rest of our customers better goods or service," is a good-natured way of reminding the delinquent that he is not advantaging himself by the refusal.

A good-humored collection letter written by Louis Victor Eytinge encloses a blotter showing a war map of Europe, with a suggestion that the customer use it to blot the signature on the check for last month's invoice.

Appeal to Fair Play

The appeal to the justness of the customer or to his sense of fair play is based on a strong and fine instinct. The instantaneous acceptance of Roosevelt's phrase, "a square deal," shows that this feeling is powerfully rooted in us all. It implies just a little bit of resentment, and shows that the man who is making the appeal is ready to fight for his rights, but it shows also his belief that the other fellow is a "good sport" and means to do the right thing. The thick-skinned or careless delinquent who is really able to pay will be roused by this appeal without feeling offense. "Put yourself in our

place—how would you feel if we were withholding a payment that you knew yourself entitled to ?" illustrates this appeal.

Some of the most successful phrases appealing to fair play are, "Will you do your part?"—"I must follow my established rule"—"I cannot make an exception in your case"—"We are willing to allow for exceptional instances, but how can we unless we know the circumstances?"

The method of asking the debtor to classify himself, like other appeals to his own judgment, shows fairness.

A reference to past leniency can be coupled with the appeal for fair play by showing that the creditor deserves a reply. "It may be you are tempted to feel that because the house of Jones and Company is large and this account is small, we can be asked to wait. This is not quite fair to us, because the aggregate of the small bills is a large sum; nor really a square deal to our other customers who pay promptly." Such a letter can continue by appealing to the customer's sense of what constitutes good business standards.

"Meet Us Half-Way"

"You will agree that we have been very fair up to date. Now won't you meet us half-way by sending us in the return mail your check for goods shown on the accompanying statement?" is a good way to write to delinquents. Retail customers frequently discontinue trading with a merchant to whom they are heavily indebted. He can say to them either in person or by letter, "By the way, you are buying goods somewhere—why not from me? Does not the fair treatment you have received entitle me to your continued patronage?" A resale of the value of the merchant's goods and services can follow this, while a suggestion that his past trade was appreciated appeals to his pride and helps to remove the sting caused by the implication that he has been unfair.

The question "Is there any reason why you are unable to meet the bill which is now overdue?" shows the creditor's fairness and makes the debtor feel like playing fair as well. "Please realize," says the collection manager of an instalment house, "that it is not only expensive to be compelled to write every so often on such a small matter as this, but it really grieves us that our efforts to adjust have apparently met with so little sympathy and co-operation." Part of the same idea is found in the sentence, "It is not exactly square to ask us to add the expense of correspondence and postage, to say nothing of the labor of handling the accounts in the office, to the legitimate cost on which the price of our goods is based."

A more general form of the same appeal can be used with splendid effect: "Is it fair to ask us or any other merchant, at this time of national emergency, to add the heavy cost of correspondence and office labor in following up overdue accounts, to the already high prices which we are obliged to pay to those from whom we buy? We confidently rely upon you to co-operate with us in conserving the credit stability of the country, and helping us to avoid further advance in our prices to you, by payment of invoices promptly as they become due." Such a letter joins the appeal to fair play to the equally strong appeals based on pride, patriotism, and self-advantage.

Offering "Constructive Credits"

Working to secure a reply and a basis for agreement, the constructive credit manager can offer to help the delinquent to collect his own accounts or to send down a skilled representative who can give advice. Nothing can be more fair than this and it arouses the customer's sense of fair play. "We want to be fair to you, and in return, we are sure you desire to be fair with us." One very successful collector who

does a large business in retail accounts in a Middle Western city writes a letter full of vigorous questions: "Is the account in dispute? Where is the misunderstanding?" offering to be the mediator between creditor and debtor. In a later letter he carries this suggestion further by referring to the well-known standing of both parties, which shows his own fairness and appeals to pride. In another letter which bristles with pointed though courteous questions, he offers to help the delinquent collect any money that may be owing to him, promising him success, and offering as evidence the ability shown in the present letter. Such appeals, like all appeals to fair play, can readily be followed by appeals to fear in case the former meet with no response.

The "General Manager" Letter

A method used with the greatest success is to refer the account to some higher official, who from his position of superior power grants a stay of proceedings while he makes one last appeal to the customer's pride and respect for fair play. The letter, known variously as the "general manager letter," the "vice-president's letter," the "controller's letter," is illustrated elsewhere in this book. It makes no attempt to terrify the delinquent, though it clearly states that further action will be taken if he does not respond immediately; its tone is unmistakably friendly. Resale arguments of every kind can be used in this sort of letter.

Putting It Up to Him

Another strong letter works for a reply by putting the matter squarely up to the customer, "If you feel that our action has been, perhaps, not entirely reasonable, we shall be very glad to have you write us frankly and fully regarding your feeling in the matter." "We have done our best to prevent cause for friction by carrying the account till now. You

do not expect us to keep this up. The next move should be made by you," is a statement to be used just before resorting to outside collection means, while the sentence, "We trust to your sense of fairness to set this matter right," can be used in a reminder letter following the statement.

"A Square Deal"—"Classify Yourself"

A letter from an instalment house to a seriously overdue customer contains the sentence, "If you believe in a square deal, show it by paying this account in a straightforward man-fashion." A sentence with less sting in it runs as follows, "Please return this letter with your remittance and we will know that you are another American who believes in a square deal." The "alternative method," or "classify yourself method," can be coupled with the fair-play appeal as follows: "Are we unfair in judging from the lack of response to our letters that you are putting yourself in a not very pleasant classification?"

"Our experience has been that there are two classes of business men who neglect their obligations—those who are careless but well-intentioned, and those who are deliberately withholding payment. In which class are you?" is a paragraph used in a collection agency letter when the customer's good-will is no longer desired.

A paragraph that can be used under more favorable circumstances is, "There are unquestionably two classes of men who allow their accounts to drag—those who are thoroughly honorable and intend to pay but are habitually slow or are forced by circumstances to delay payment, and those who are deliberately careless. We wish to say to you with the utmost fairness that we do not for one moment believe that you intend to classify yourself as belonging to the latter."

"If you and I could get together we could soon straighten out the misunderstanding in regard to your account, because

I am sure that you intend to give us fair play," is a sentence used in handling distant accounts. The suggestion that the delinquent should take a certain action "in justice to yourself" shows a fairness that calls for a return of the same quality. It is a good plan to explain the fairness of the creditor's terms. This appeal is useful also in writing to customers who have been guilty of abusing the discount privilege.

Unwillingness to Take Severe Action

Finally, the creditor's expressed unwillingness to take unpleasant action appeals to the sense of fair play. "Please do not expect me to turn over your account to an outside collector who will not have the same interest in retaining your good-will that I have personally"—"Please do not force me to continue annoying you with correspondence on this bill"—"We do not enjoy sending out collection letters; we prefer to rely on our customers' sense of fair play"—"Harsh collection methods are always a last resort with me"—"I gladly opened this account with you thinking it would be a service and accommodation to you"—all of these appeal to the sense of fair play but show that the debtor will be injuring himself by further resistance.

The Desire to Avoid Annoyance

No one enjoys being bothered with collection letters, and the annoyance of a "dun" is one of the strongest influences in getting a debtor to pay. A collector, for instance, is more a source of annoyance than of fear. Sometimes a collector tries to play on this feeling by loud talking or calling at inconvenient times, or even trying to shame the debtor by attracting the attention of outsiders. But a collector can usually find a better means of securing payment, especially as the means just referred to are likely to arouse anger, together

with all the stubbornness the debtor can feel. "Get this off your mind by slipping a check into the enclosed stamped and self-addressed envelope," is an appeal to the desire to avoid annoyance. "We do not wish to annoy you by letters," or still better, "You do not wish to be annoyed"—"We do not wish to annoy you," are various ways of saying the same thing. "Please pay this small balance at once and avoid the annoyance of unnecessary correspondence"—"Our letters must be annoying to you, but they are the only means we can employ to keep you reminded of the condition of your account," are other ways of phrasing the same idea.

An interesting appeal is one which suggests that "Prompt payment now will avoid the possibility of confusion later on." This phrase attracts attention by its novelty, reminds the debtor that it is easier to credit a payment properly if it is received on time, and that if he lets it go he may forget whether he has paid it or not, causing confusion and annoyance. The word "confusion," also, is a welcome addition to the vocabulary of collectors, which tends to become somewhat threadbare. It carries with it somewhat vague and uncomfortable suggestions of all kinds of trouble.

"A past-due account breeds friction—we do not want any friction between our good customers and ourselves," carries also a suggestion of pride.

The Appeal to Shame

If most men are honest, then most men can be made to feel ashamed of their action should they fail to pay their bills when due. But how can the sense of shame be brought to bear? The inexperienced collection man will make his customers angry by insulting them, where the experienced executive will produce the desired result by his courtesy and fairness, the restraint of his language, and the sincere interest he shows in his customers' welfare. Only by behaving

better than your opponent can you make him feel ashamed of himself.

A summary of former collection letters, with the dates of letters, etc., can be used to make the debtor ashamed. "We find that we sent you statements on May 1 and May 15, followed by letters on May 25 and June 2. To none of these have we had a reply. We believe we have shown our desire to deal fairly with you in this matter, and unless we hear from you on receipt of this letter we shall draw through your local bank."

Phrases that Awaken Shame

Various phrases that awaken the sense of shame are the following: "This small balance for goods purchased last year"—"Most of our customers are scrupulously careful about their obligations, and we believe you feel in the same way in spite of your apparent neglect of our various communications"—"It is so easy for you to write a letter that the least we can expect is an explanation"—"Your letter of January 15 assured us that we should have a substantial payment by the end of the week. It is now the 25th and we have not heard from you"—"We must express our disappointment at the fact that no reply has been received to what we considered an unusually fair offer to make it possible for you to settle your pending obligation and to allow the goods now ordered to go forward"—"I do not want you to feel that we are in any way treating you unfairly in asking you to reply promptly to our letters"—"What would you think of a man who received merchandise and failed to pay for it?" (This should be given in some detail. It is the famous "Thou art the man" story, based on Nathan's exposure of David's wrong-doing as narrated in II Samuel 12. It is a dramatic device with the advantage of suspense, awakening curiosity.)

"Please do not postpone longer a definite reply"—"When

you ordered goods from us you accepted a credit obligation" —"We have endeavored to co-operate with you, but apparently without success"—"Please let us know why you are withholding payment"—"Payment has been repeatedly requested"—"Please pay this small balance at once—it is not really worth while spending so much effort upon as we seem to have been obliged to give to it"—"You realize surely that with a large volume of small accounts prompt payment is absolutely essential, and we trust you will not further withhold payment from us"—"We cannot forbear from saying that it seems to us our past leniency (past satisfactory relations, etc.) entitles us at least to an answer to our various communications."

Shame and Family Affection

"The only explanation which I can find for your action is that it would be impossible for you to make payment at the present time without causing yourself or those dear to you great suffering. Is that correct?" (Used by a successful retailer with remarkable effect. By seeming to condone with the customer in some personal misfortune, he shames him into payment. He also uses the sentence, "There was, I suppose, some unhappy reason for your failure to pay.")

Any references to the creditor's fairness, to the credit he has extended, or the favors he has shown in the past can be used to awaken the customer's sense of shame.

An open threat to shame a delinquent by taking public action is the strongest means of appealing to this sense, but is used only as a last resort because it always awakens anger. Such sentences as the following illustrate this method. These awaken fear as well as shame.

"We should very much regret taking this action, as it would result in the facts of the case being known to the trade in general."

"If this draft is presented at your bank, it will, we feel, cast an unfavorable reflection upon your financial standing."

"The calls of a collector at your home might make an unpleasant impression on your friends, and consequently we are very reluctant to be forced to take this means of securing payment."

"We feel that in justice to you we should use every attempt to get settlement of the account you owe us, because otherwise at the end of this month we shall be obliged to send in your name, according to our agreement, to the local credit bureau, where it will be listed and the facts of your unwillingness to pay will be known to the other merchants of the city."

"You are of course aware that a list of persons concerned in court proceedings is known to a very large number of persons, so that if we enter suit against you, not only are we certain of obtaining judgment, but the fact that you have once been sued for an account will reflect upon your standing and will make it less easy for you to do business in the future."

The Appeal to Fear

"All diplomacy," says a famous diplomat, "is but the threat of force." The ability to enforce one's rights is a necessity if one's persuasion is to gain a respectful hearing. The man whose language and bearing carries authority will secure more attention by a word than a weakling will gain by a half-hour's bluster.

The attempt to frighten the debtor is sometimes like the old-fashioned blunderbuss, more dangerous to the man who shoots it off than to the target. If used too strongly where circumstances do not warrant it, the debtor, instead of being terrified, will grow angry and delay payment as long as possible; or he may feel contempt for a creditor who

threatens more than he can perform. It destroys good-will.

A safe rule to follow is that letters from the creditor himself should never contain more than a mere suggestion of the appeal to fear. If finally considered advisable the account may be turned over to an outside agency with instructions to use the best skill it possesses; but even the outside agency is usually most successful when it shows leniency and appeals to fairness, pride, and self-interest while keeping the show of force in the background. Only in dealing with ignorant and inexperienced debtors who are able to pay but stubbornly determined not to, will vigorous threats be of much service.

The Lion's Imagination

Lion-tamers are said to carry in the right hand a whip and in the left hand a rod. Though they may lash the beast repeatedly with the whip, they make only a feint of striking him with the rod. The lion believes a terrible power to reside in the rod, and since he never feels it he continues to fear it. The lion is subdued by his imagination.

Whether true or not, the story is a good parallel to the collection man's use of fear. He continually uses "moral suasion" with his debtors, touching them by appeals to pride, fair play, self-interest, shame, etc. But he makes only a feint of striking them with the authority of the law. If the case gets beyond him he is likely to turn it over to the attendant with the pitchfork. But let us not push the analogy too far.

Classifying Customers

The classification of debtors into good pay, slow pay, and poor pay, on the basis of past experience or credit information, guides the credit man in his use of the appeal to fear. In his reminders to good-pay customers he will carry

courtesy and leniency to the extreme, though he continually "presses the button" of the various appeals that are likely to make a spark in the debtor's nervous system and set fire to the train of action. The slow-pay customer will receive a little more vigorous treatment, while the poor-pay customer, if delinquent, finds his affair pressed rapidly to a conclusion.

Phrases That Suggest Urgency

Certain words and phrases always carry the suggestion of urgency and should be used with care, especially when writing to a sensitive customer, lest they destroy good-will. With previous delinquents they can be used more freely. The collection man should have the customer's record before him; then, if he writes less strongly than the occasion seems to demand, he will probably say about the right thing. The following phrases are given in the order of their strength:

1. Reference to past unanswered correspondence.
2. "Immediately" or "at your earliest convenience," when applied to a letter or remittance.
3. Mention of a definite date as "by July 6," "in three days," or "by return mail."
4. A command, as, "Let us hear from you," or "Send us." To preface these phrases by "please" makes them more courteous. Still milder is a question, as, "Will you not let us hear from you?" or a conditional statement, as, "If you will let us hear from you, we shall be greatly obliged." Much more sharp than "Please let us hear," is "Kindly let us hear."
5. The words "must," "be compelled to," "demand," "require," "insist," "it is imperative."
6. "Delinquent," or "slow pay."
7. A veiled threat, like a reference to "other measures," or specific mention of an attorney or agency.

Usually one sharp phrase in a letter is more effective than several. The effect of such a phrase can be varied by putting it in various positions; at the end of a letter it has an emphasis like the crack of a whip; but buried in a paragraph and followed by pleasant language, it stings without leaving a scar.

Increasing Severity

The chief appeal to fear is through an evident advance in the severity of the tone adopted in interviews or letters. Never allow a debtor to become perfectly sure of the steps that are to be taken. If you do, he soon learns to discount them in advance, and to wait as long as patience allows. With a good customer who has not previously been delinquent, the various stages of notification, reminder, discussion, draft, outside collector, and suit might be gone through.

Other phrases that appeal to fear are the following:

"We should regret very much to feel that you were purposely neglecting your account."

"We shall be obliged to proceed (take it that you wish us to proceed) in the usual manner (to take our customary action)." (This reference to customary action shows that the creditor is certain of success.)

"A copy of this letter will be held as a memorandum in my files for ten days."

"You realize that it would be a serious matter for you to jeopardize your credit standing by further postponement of this settlement."

"We are sure you do not wish your friends and neighbors to be embarrassed by any questions our attorney might ask about you."

"While you may be personally entirely willing to run your chances of court action, we trust that you will remember the unpleasantness this would bring upon those near and dear to you, and that you will not oblige us to begin proceedings that would be attended by unpleasant consequences." (This appeals also to family affection.)

The warning or notification of the draft carries with it some element of fear and annoyance, and it is sometimes advisable to write in a manner which will increase this feeling in the customer.

The mention of referring the account to some other person carries with it a degree of fear, proportionate to the authority of that person and his power to inflict annoyance, to cause shame, loss of credit, of business opportunity, of reputation, of money, etc. Thus the account may be referred to the collection department, the credit department, the credit manager—mentioning him by name—the controller, the bursar, a special collector inside the house, an outside collector, a collection agency, or an attorney.

The Appeal to Curiosity

Can curiosity be used by the collection man? The beginning of a collection letter may be so cleverly handled, especially if this beginning is a story, that the reader is curious to see how it will end and reads through. But suppose curiosity is awakened by the first letter of a series; the result will be, as the popular joke has it, that he will wait to see what the creditor has to say next and will postpone payment until he gets the whole series. The creditor is not in the business of providing entertainment to delinquents, and if he is wise, he will cut the customer's amusement short with a draft or a call from an attorney. Incidentally, it is a good principle not to write two clever letters in succession, but to follow up a good-natured appeal by a severe one.

A letter sometimes used by agencies and others contains the sentence, "Unless you do so, we shall be obliged to take steps that will cause you the greatest astonishment." When

this brings in the money, it does so by stimulating the debtor's fear through his imagination. He is not at all curious to find out what will happen to him—he does not want to find out—but the novel phrase surprises him and he pays on impulse. (See pages 175-178.) If he were really made curious, he would postpone the payment and wait "to see what came out of the box."

Appeal to Saving and Acquisitiveness

The desire to save money or to make it can sometimes be used by a creditor who, despairing of collection in full and not wishing to undertake suit, may offer the delinquent a slight discount for payment within a set time, or a bonus either in the form of cash, a book, an article from stock, etc. These methods are rarely used except with customers to whom only a single sale is made, or from whom orders will no longer be accepted. They are sometimes used, however, by creditors who are conscious that the customer has been "oversold," or that the goods sold him were not worth the full purchase price. What these business men need is education as to methods of sale rather than methods of collection.

In a great emergency, it may be decided to extend the usual discount as an inducement for prompt payment. One such letter reads "In view of the special circumstances existing at this time we have decided to offer our customers a bonus of 2% for all payments made on or before March 1. This will be given as an appreciation for the good-will shown in the prompt remittance." The frank appeal to good-will preserves the offer from appearing as a sign of weakness.

A concern selling cigars by mail with terms cash ten days after receiving goods and privilege of sampling the contents, at one time wrote to certain delinquents over the signature of its president.

"I am not going to turn your account over to a collection

agent who will hound you and annoy you and destroy any good-will you may still feel for me and my cigars, besides demanding for his services 50% of the amount you owe me.

"Here is what I have determined to do. I will make you your own collection agency. The amount now due is $10.75. Simply mail me your check for $5.38 and I will send you a bill receipted in full, showing 50% cash and 50% collector's fees. Send me this check quickly before I change my mind."

The danger of this method is that the dishonest smoker of cigars might spread the good word among his acquaintances that he knew a place where you could buy cigars for half-price.

The most common form of the savings appeal is made when the creditor hints at the expense of legal proceedings, which must be borne by the debtor. To a stubborn debtor, this can be said good-naturedly: "You know well enough that you must pay for every step we take—why force us into action that costs you money?"

The Desire for Success

The appeal to this desire is implied in all sincere resale or constructive letters, and it can be employed in connection with other appeals. "We are sincerely interested in your success and make these suggestions with your own interest in view"—this appeals also to pride and self-interest. It can be combined with the appeal to fear, as, "Unless you meet your obligations fairly, you cannot hope to win."

Other Appeals

The instinct of *imitation* is made use of when the creditor says, "We find on investigation that 90% of our customers pay on presentation of the statement," or "It is certainly very pleasant to have our confidence supported by an analysis of our business recently made, which discloses the fact that

only a fraction of one per cent of our customers are ever seriously delinquent." This not only appeals to pride, but suggests that the example of these customers be followed.

Competition may be excited. Certain towns using the "Pay-Up Week" scheme have by means of a cash prize stimulated the townspeople to see who would pay the largest amount. Competition between salesmen to make a good showing in collection from their respective territories should always be employed.

Finally, the motive of *patriotism* can, with entire justice, be appealed to in collection. The creditor who educates his trade to sound business habits and prompt payments, by so doing confirms and strengthens the credit stability of this country and performs a national service. There are many credit men, let it be said with pride, who are entitled to the honor of using this appeal by virtue of the broad-minded business statesmenship they have displayed in their country's time of need.

The Appeal to Pity

Business men long ago discovered that it was unbusiness-like to appeal to the pity of their customers as a means of securing payments. The plea, "We need the money," is no longer offered as an excuse for the efforts of the collection man; some less humiliating statement of the fact may be employed to show the debtor quietly but firmly that the creditor cannot afford to be overindulgent. Professional men, however, often fail to realize that to appeal from a position of strength brings better results than to appeal from a position of weakness.

One who was the football of fortune, Oliver Goldsmith, learned through bitter experience the truth of the matter. In the third number of *The Bee* he expresses the philosophy of Jack Spindle, a beggar: that to have much or to seem to

have it is the only way to have more, since it is the man who has no occasion to borrow that alone finds numbers willing to lend. "You then, oh ye beggars of my acquaintance," exclaims Spindle, "whether in rags or lace, whether in Kent Street or the Mall, whether at Smyrna or St. Giles', might I advise you as a friend, never to seem in want of the favour you solicit. Apply to every passion but pity for redress. You may find relief from vanity, from self-interest, or from avarice, but never from compassion."

Combining Appeals

As is suggested by the diagram on page 136, appeals to the sense of advantage can be combined with appeals to the sense of obligation in different proportions as the procedure advances. A letter that begins strongly and ends mildly is one that contains an appeal to shame or fear re-enforced by appeal to pride. If it begins mildly and ends more strongly it probably contains an appeal to pride or good-will followed by a threat of stronger measures that appeal to the sense of fear. The letter which ends more mildly than it begins, moreover, has the effect of leniency and arouses good-will.

Surprise and Impulse

Every collection manager who prepares a series of collection letters, or every sales manager who has to handle a sales follow-up, is acquainted with the principles of surprise and impulse, though possibly he has not given them a name. Variety is more than the spice of life in collections—it is life itself, for the follow-up letters which have no variety are dead indeed. If collection procedure always travels the same road, the delinquent debtor anticipates its steps, and discounts in advance the means that will be taken to bring him to payment. For example, one large house which had always employed first a statement, then a draft, and then

a letter inquiring why the draft was dishonored, discovered that a great proportion of its drafts were dishonored. Investigation showed that the same customers, at fairly frequent intervals, overstepped their time limit and refused to pay the draft sent them, knowing from experience that the house would allow two weeks to pass before sending the account to an attorney. This likewise is the danger of an unchanged series of form letters. The customer recognizes the stock language, for he has received them before, and waits until the entire series has spent itself and until real pressure is applied. Abundant variety in forms is necessary if they are to produce surprise.

The familiar story of the debtor who failed to reply to form collection letters because he wanted to get the entire series to use on his own delinquents, has gone the rounds often enough to warn us of the weakness of a series of unchanged forms. Any collection procedure, whether of drafts, forms, or dictated letters, which repeats itself frequently to the same customer, presently loses its teeth, and fails to arouse the debtor to action.

Any man who becomes delinquent for reasons not under his control, and who has kept his creditor informed of his position, can rely on his own good reputation to insure that the creditor will take no unexpected steps. But even the good-pay customer, and certainly the poor-pay customer, is stimulated to action by uncertainty as to what steps the creditor will take next.

The Turn in the Road

One collection manager of considerable success told of how this principle became impressed upon his own mind. His suburban home was located on a shady road which a few hundred yards away made an abrupt curve.

"I often sit on my piazza," said this man, "and wonder,

'What will come around that bend in the road?' One day it occurred to me, 'Have my collection letters that perpetual spice of interest, or do my customers when they get the first one know what the last one will be?' Then and there I made up my mind that no man, not even the best customer on our list, should ever be able to tell in advance what was coming around the turn of the road." Fortunately the methods of collection are so numerous that variety and surprise are by no means difficult to produce.

A great deal of the success of advertising is due to the pleasant surprise it has given to a public accustomed to cut-and-dried methods of sale. In like manner the collection letters which use various appeals, and which give evidence of an alert mind which can adapt itself to the problem in hand, succeed not only because of the logic of their method, or because they have touched precisely the right emotion which serves as a spring of action, but partly because they are "different."

Impulse

The companion to the principle of surprise is the principle of impulse.

Though men are reasoning beings, and an undercurrent of logical conviction always aids in determining our actions, still most of our decisions are made on impulse. A certain course seems reasonable and so we adopt it, because a decision must be made. This principle comes to the aid of the collection manager who writes courteous letters with an appeal to reason. Most men, even those who are occasionally dishonest, are good-natured, and will oblige a man who treats them decently. Suppose such a man receives a reasonable letter in the same mail with less reasonable letters from other houses. The first letter suggests a *reason* why he should pay; the others are mere demands. Without troubling him-

self to remember that he should treat all his creditors alike, the delinquent acts on impulse and pays the account of the house that has given him what he calls "good treatment."

"I have just had a lesson on collections from the home office," remarked a salesman of the National Cash Register Company. "There are a couple of men here in town who owe me, and owe about everybody else—poor skates, who never have done a successful business and never will. Yet the credit man has been writing them kind, polite letters, asking them, 'Can you tell us whether there is any reason why you should not pay?' Ridiculous! Any reason? Why, there were any number of reasons, beginning with the fact that they didn't have the money. Next time I went to Dayton I began to remonstrate with him. 'Go back to your selling,' he told me. 'You don't know anything about this collection business. Those poor-pay fellows are used to being hit over the head by every one of their creditors, and when a courteous letter comes along, that looks as if we appreciated their business, it surprises them so that they pay us in preference to the other fellows.' And," concluded the cash register salesman, "I believe he was right."

CHAPTER XVIII

COLLECTION PROCEDURE—EARLY STAGES

Questions of Procedure

What is the best procedure to follow in collection? How far apart should letters be sent? How many statements should be sent before writing letters at all? How long should an account run before being turned over to an outside agency? These are only a few of the questions which confront the credit or collection man in establishing a program for his collection procedure.

Chapters XXX to XXXIV, on unusual credit risks, contain a detailed analysis of several carefully worked out collection procedures, rich in suggestion to the collection man no matter what the nature of his business. Some of the most valuable letters together with a chart of collection procedure (pages 370, 371) are in those chapters.

In Chapters XXII to XXV is an analysis of the methods, together with the letters, of several of the most widely known mercantile houses in the country, which because of the great volume of their business have been obliged to reduce the steps taken by their credit department to careful routine and to make large use of form letters.

The problem of handling form letters is taken up in Chapter XXXIX. Chapters XVIII to XXI contain an analysis of the methods which in this chapter are shown as used in series under various conditions.

General Advice

The general advice of the good credit man is, "Give them good treatment if they are worthy, and clear your books of

the doubtful cases." That is, maintain the good-will of those who are deserving of the privilege, but do not spend energy on customers from whom nothing is to be had; put your efforts instead into constructive and paying business. The problem in general is first, how to show good treatment that nevertheless will bring in the money as rapidly as the debtor can possibly pay it, and second, how to devise methods, whether handled inside the office or by an outside collection agency, that will leave the credit man free to put in his time where it will count for most.

Severity in the early stages is to be avoided. "When I was learning the business under our president," says a well-known credit man, "he used to say to me, 'You know how it was when you were catching horses in the pasture. You had a tuft of grass in one hand and a brick in the other. First throw him a tuft of grass and then throw him the brick, but always throw him the tuft of grass first.' "

The Stages of Collection Procedure

In general outline it may be said that the collection procedure has six stages:

Sale and Resale
Notification
Reminder
Discussion
Urgency
Ultimatum

Even in advance of these stages there is another period, during which prestige begins to produce its effect.

The Effect of Prestige

Collection begins even before the goods are sold, with the impression made on the future customer's mind by the prestige of the house. It will give protection against dishonest tactics. A famous credit manager says, "When I was a young man in the employ of Marshall Field's wholesale house, they had a reputation of always collecting one hundred cents on the dollar. Whether this reputation was deserved or not, it had a powerful effect, and merchants who were intending to fail and to reopen saw to it that when their books were closed they owed Marshall Field nothing. Otherwise, they believed, they could never buy goods there again."

A common saying descriptive of character is, "He's the kind of man who pays his bills." Another might well be coined, "He is the kind of man who gets his bills paid." The prestige of a great merchandising house runs far in advance of its operations, and customers when buying their first bill of goods from it thoroughly expect to pay.

What is the secret of the marvelous reputation which such houses enjoy? The quality of their goods is high, their financial position is sound, their skill and power as buyers are great, their understanding of merchandising is unparalleled, their determination to get their dues is fixed; but above all these their integrity is unquestioned. The single word "character" sums it up. The man with character has means of securing his rights and one result is that he has less occasion to enforce them. The customer who desires credit from such a house knows that he must "pay the price."

The Stage of Sale and Resale

If the advertising of a house has an untruthful sound and the values offered therein are questionable, it will be harder to collect payment for the goods sold. If the advertising is too emphatic and induces the purchaser to expect more than can reasonably be had in the merchandise at the price quoted, the resulting dissatisfaction will be felt in harder collections. If a salesman oversells the customer and

loads his shelves with merchandise he cannot dispose of, or offers him inducements that the house will not substantiate, the collection department will feel the effects of these bad sales policies. The insurance company which oversells is punished by lapses, the book company which oversells finds its collection lengthy and expensive and is obliged to take back many of its volumes. "Even in selling for strictly cash," says Henry Schott, manager of publicity for Montgomery Ward & Co., "we take the utmost pains to undersell rather than to oversell in our catalogue descriptions lest the purchaser on receiving the goods be dissatisfied and take advantage of our guarantee to return his purchase." The credit and collection managers should have a voice in determining sales and advertising policies.

Resale can be carried on throughout the period of the relation between the customer and the house. The jobber can continually educate the retail merchant in the principles of credit and their mutual advantage in maintaining them. Every opportunity can be taken to increase the satisfaction and profit the purchaser finds in the goods he has bought. Some companies even follow up for a considerable period purchasers who have made a "once-in-a-lifetime" purchase, in order to prevent friction arising over repairs and adjustments, and to increase the good-will which will make possible sales to the purchaser's friends. An instalment house is losing a marvelous opportunity if it does not conduct a regular resale campaign from the moment the order is taken to the time the final receipt is mailed to the customer; the cost of this would be paid many times over from the expense of collections and lapsed payments. This resale program need not be carried on entirely by direct mail, though this is the medium which comes naturally to mind; an apparently accidental call from a salesman, a letter asking for the names of other possible prospects, or a telephone call,

may serve the purpose at small expense. Regular advertising in newspapers and magazines can lay emphasis on the solid benefits enjoyed by a purchaser, and such advertising will tend to keep previous customers thoroughly "sold" on the merits of their investment. This very important aspect of advertising is just beginning to be recognized.

As is pointed out in Chapter VII, "Selling and Reselling Credit," resale does not come to an end by any means when delinquency begins, but should be carried on with renewed earnestness and ingenuity at the first sign of slowness in payment. Remember that resale does not mean merely reselling the goods, but reminding the customer skilfully of services rendered and of the value to him of sound credit.

The Stage of Notification

Accurate records, like sound credits, are built into the basis of good collecting, and the system of an office must be such that mistakes in accounts are reduced to the minimum, until their habitual accuracy produces its effect on the customer's mind. He is not inclined to claim discrepancies if he is always proved wrong, and he is much more likely to pay on receipt of the statement.

It is worth while for any firm to analyze its accounts in order to ascertain what per cent of its customers pay on receipt of the statement. If this percentage is not decidedly large, then the methods of sale and resale must be subjected to rigid scrutiny and reformation, while a very earnest "clean-up" campaign (see Chapter VI) should be instituted to reform the bad habits of customers.

Some credit men believe that the invoice is sufficient notification and that the customer should pay when the account is due without further warning. Others—and these are probably the majority—always send the statement to arrive on the day when payment is due, believing that the

results more than pay for the expense. Another excellent practice adopted by many houses is to send the statement to arrive five or ten days before the account is due. It is a good plan, in order to avoid annoyance, to print or stamp on this statement in large type the words, "This account will not be due for ten days. Statement is submitted for your convenience." The same words can be printed on a sticker and pasted to the statement.

In the case of delinquents with whom a special arrangement has been made, it is often wise to send a courteous letter on some pretext reminding the customer of his coming obligation and urging him not to be found wanting. On the other hand, several instalment companies handling small payments have found it advisable to allow the customer to do his own reminding, and send him at the time of sale a card on which he is to keep his own record, urging him to establish a definite day in each month on which to make payments.

The Stage of Reminder

The first assumption, if payment is not received when due, is that an oversight has occurred due to press of business or other reasons, and the collector tries to reinstate the regular order of things by a gentle reminder. Depending upon the classification of customers as good pay, slow pay, or poor pay, or on some other classification, he may send out one or two statements at intervals followed by very simple letters.

Here in most instances is the all-important crisis in the history of an account. If the customer does not pay on the first or second reminder, he is in grave danger of lapsing still further, because it has become habitual with him not to pay this particular account. He has thought of it several times but has refrained from action. How is the collection

man to prevent this state of mind? The answer is, by using some means *at this point* which will call the matter more definitely to the customer's mind. When these means have been decided on, one of the worst leaks in the collection procedure will have been plugged.

The step adopted must not give offense and it must not be used with the wrong people. Consequently it must be impersonal and courteous, and it must be based on a careful classification of customers, for those who are seldom slow do not need the same treatment as those who frequently run beyond the terms laid down, while those who are poor pay may receive even more urgent communications.

Stickers and Rubber Stamps

Special stickers attached to the second statement, phrases imprinted with a rubber stamp, enclosures dealing with credit and sent with the second statement or the first letter, printed form letters accompanying the second statement—these are some of the many means adopted for this purpose. Typewritten reminders can be substituted for printed or multigraphed reminders, and specific appeals to pride and goodwill can be employed to make these letters sound less mechanical. A paragraph of sales material in the letter or some other method of "reselling the house" is an admirable means of removing unpleasant implications from this increased urgency and of reminding the customer that he should "pay the price" for his valuable credit privilege.

If any such means are adopted every care must be taken to let the customer see that they are general and not applied to him alone, and the house must be ready to explain—in fact, it can prepare form letters for this purpose—that these methods are adopted merely as being more businesslike. "We can assure you," this letter may say, "that we earnestly desire to retain your good-will and to increase the volume of

our dealings as well as the efficiency of the service we are able to render you, and we are confident that you will benefit equally with ourselves by every improvement in our office practice."

The rubber stamp reminder always implies extra urgency, partly by reason of its color. But a monotonous repetition of "Please remit" presently loses force. One collection man, realizing this, uses from time to time six different stamps. One of them shows the "man in the moon" with an alluring smile, and the word "Please" written above it. Another shows within an oval border a big question mark "Have you forgotten us?" Another is a hand with a finger pointing and the words, "Past due." Two others somewhat longer read, "Statement of June purchases and balance open on our ledger for purchases prior thereto. Please verify and report any error on this statement"—"You have evidently overlooked payment of last month's bill. Please mail check which we are sure you have forgotten."

One advantage of printed stickers over rubber stamps is their comparative novelty, and the fact that their language can be more courteous and explanatory. The color of these stickers can be made subdued or violent to fit their mission.

Special Forms

The card distributed by the National Association of Credit Men, when enclosed with a statement or letter, brings earnestly to the delinquent's attention the consequence of his neglected correspondence. This card is shown on page 187.

Novel forms of coin cards, etc., are sometimes used as an urgent means of attracting attention and as an easy way of getting action. The Scott Paper Company, for example, uses a sheet about 5 x 14 with a gummed tab at each end. This is folded into a 4½ x 3¼ size, the customer's name and address typed on the outside, and one tab fastened down.

Did you ever stop to think

How seriously *indifference*, and neglect of the correspondence of your creditors, relating to overdue accounts, *affects your credit standing?*

If you cannot remit when due, don't let the creditor *guess* the reason. He is likely to make an unpleasant guess. Give him the reason straight, and thus encourage that frank relationship between business men that is worth dollars to each.

PROMPTNESS IN CORRESPONDENCE IS ONE OF THE BEST OF CREDIT AND BUSINESS BUILDERS

NATIONAL ASSOCIATION OF CREDIT MEN
FORTY-ONE PARK ROW NEW YORK CITY

This card provides a courteous, impersonal reminder. It resells credit and appeals to self-interest and pride.

When the customer receives this and opens it he finds a duplicate invoice folded up inside. On one-half of the sheet itself is printed a letter which reads as follows:

Dear Sir:

May we thank you for your recent purchases of Scott Tissue Products? Particularly the ones we have listed in the statement form opposite.

Is there any reason why this account has remained unpaid slightly longer than the contract terms, "30 days net cash" permit, gentlemen? Instant attention will be accorded your explanation in such an event.

Your message can be written in the blank space attached or your check for $..... can be wrapped in this form which refolds for your convenience into an addressed return envelope.

A response in either form is respectfully requested before the close of the week and will be gratefully received.

Very truly yours,
CREDIT DEPARTMENT

In one corner of the space reserved for the letter is also shown a copy of the statement of the customer's account in

three columns, one for the date, one for the debit item, and one for the credit item, with the balance shown at the bottom.

The other half of the sheet is headed by a date line, the address "The Scott Paper Company," and the salutation, "Gentlemen:" At the bottom of the sheet is printed, "Very truly yours." Even where the customer would prefer to disregard the sheet sent him and dictate his own letter the device is likely to bring quicker action than if the blank sheet were omitted.

Personal Letters

If collections are to be effective during the reminder stage, the letters must not be hackneyed and stereotyped. Especially if forms are used, these must be provided in considerable number and changed frequently.

The use of individually typed letters instead of multigraphed or printed forms in this stage of collection will bring, according to the writer's belief, the best results in handling the ordinary mercantile trade and in dealing with customers whose future trade is desired. These letters can use the courteous personal language of dictated correspondence, while the dictator to save expense can indicate them by number, and have them either individually typed from a form-letter book in the possession of the typist or run off on the automatic typewriter. Short reminders are not expensive to type. The dates of previous letters, the amounts involved, or a personal item concerning the customer—even a specially dictated paragraph—are easily inserted in the letter, when sent to the typist together with the number of the form letter that is to be used.

Some Reminder Letters

The following letter appeals to good-will so pleasantly that it can be used when an account is only slightly overdue:

Gentlemen:

You will note from the attached statement that you have overlooked your November bill.

We rely on the good-will of our customers to repair these little oversights on being reminded of them, and will look forward to your prompt remittance.

Yours respectfully,
COLLECTION DEPARTMENT

These two letters assume that the customer has good-will for the creditor, but has overlooked making payment:

Dear Sir:

We have a balance against you on our books for the sum of $15.65. Inasmuch as it has always been your custom to remit promptly, we feel that the matter has either been merely overlooked or that there is some error in our books.

With the supposition that such an error may possibly exist we are sending you a duplicate invoice for your assistance in checking up the matter.

As our accounts show the matter as unpaid, please let us know if there is any error, and we will be glad to correct it.

Very truly yours,

Dear Sir:

About ten days ago we sent you a statement of your account amounting to $..... .

Probably this statement has escaped your attention. Now that the busy season is coming on, that would be quite natural.

We feel that you will be glad to have your attention called to the matter and that you will send us your check in the enclosed envelope.

Cordially yours,
CREDIT & COLLECTION DEPARTMENT

This short letter appeals to the desire to avoid annoyance.

Dear Sir:

A man who has to carry many details in his mind can't possibly do justice to all of them. And every detail he attends to gives him just so much more power for other matters.

Our account will be off your mind if you send a check today.

Why not use the enclosed envelope—*now?*

Very truly yours,
CREDIT & COLLECTION DEPARTMENT

This story tells the customer, by means of a specific instance, "We know how these things happen ourselves."

Dear Sir:

One of the firms we buy office supplies from phoned us the other day asking for a check on their account. Our bookkeeper couldn't find that we owed them anything.

Inquiry about the office, however, revealed the fact that the office manager was holding the bills for last month in his desk, forgetting to check them up and send to the cashier for payment. He got "busy" at once.

It occurred to us that perhaps your account with us had become "shelved" in the same way, and that, like ourselves, you would appreciate a reminder.

Very truly yours,
CREDIT & COLLECTION DEPARTMENT

The following two letters are used by different houses for collecting petty accounts. The first one is employed to clean up the books at the beginning of the year; the phrase "last year" surprises the debtor and makes him ashamed of himself. Each letter pleasantly asks for an order with the remittance.

Gentlemen:

A small balance of $9.60, for goods which you purchased last year, is still on our books. Evidently it has escaped your attention and we therefore ask that you send a check in settlement to balance the account, together with an order. Both will be appreciated.

Yours respectfully,
.....
CREDIT MANAGER

Dear Sir:

The credit man of one of the well-known firms here remarked to us the other day that his firm never sent statements as they considered the invoice enough notice that payment was due. We didn't agree with him as our experience has been that the largest percentage of our friends, who don't discount, pay on receipt of the statement.

And that leads us to remark that we have had no returns from the statement mailed you a few days ago.

By the way, the holidays will soon be here and if we can judge from the way orders are coming in, the forehanded man will place his order *now* for his holiday goods.

Is your order in? If not, take inside advice and when you mail us your check for the account, send us an order for your Christmas needs with it.

Very truly yours,

Some Crisp Collection Letters

The following nine, short letters illustrate how variety in reminders may be secured by slight changes in wording, appearance, paragraphing, etc. These were all issued by the credit department of a certain Massachusetts manufacturer as a part of his procedure for maintaining his terms, without giving offense and losing good-will. With the example of this exhibit before him, no collection man need feel that he cannot avoid monotony in the early collection letters he writes; while with the additional aid of material presented elsewhere in this book he can secure almost endless variety.

Our Invoice of June 14

Dear Sir:

This amounts to $9.47 as shown by the enclosed statement. There is evidently no question regarding the correctness of our charge as we have not received any letter from you to that effect. Payment is due in accordance with our terms of net 60 days subject to which your order was placed.

Please favor us with your check for $9.47 at an early date. Your courtesy will be appreciated.

Yours very truly,

Request for Information

Dear Sir:

You will note on the enclosed statement a very old item which amounts to $11.63. This is to cover your debit memorandum of January 25 which we were unable to allow.

If you feel that our action, perhaps, was not entirely reasonable, we shall be very glad to have you write us frankly and fully regarding your feeling in the matter. In common with all manu-

facturers it is our earnest desire to keep our accounts cleaned up to date as much as possible and consequently we feel that some disposition should be made of this small item.

Please favor us with the courtesy of a check or an explanation at an early date. You may be sure your courtesy will be appreciated.

Yours very truly,

Our Invoice Dated June 27

Dear Sir:

Is there any question regarding the correctness of this invoice, which amounts to $76.65? In accordance with our uniform terms as stated on the enclosed statement, payment should have been received two weeks ago, although such was not the case.

Doubtless this was an oversight on your part. If you find that payment is in order, kindly favor us with your check for $76.65 at your earliest convenience. Your courtesy, you may be sure, will be appreciated.

Yours very truly,

Your Orders No. 63467 and No. 64347

Dear Sir:

These are covered by our invoices of June 27 which amount to $37.49 and $10.71 as shown by the enclosed statement. In accordance with our uniform terms of net 60 days, payment of these invoices is overdue. You will agree with us that our terms are liberal and inasmuch as your orders were placed subject to them, they should be adhered to closely.

Please favor us with your check for $48.20 at your earliest convenience. You may be sure the courtesy of your co-operation will be appreciated.

Yours very truly,

May and June Invoices

Dear Sir:

These amount to $14.70 after deducting credit of June 16 as shown by the enclosed statement. Payment of these invoices is overdue in accordance with our uniform payment terms of net 60 days, which we feel are very liberal.

Unless, of course, you have some question regarding the correctness of our charges, an early payment is in order. Please send us your check for $14.70 at an early date. Your courtesy will be appreciated.

Yours very truly,

Our Invoice Dated June 11

Dear Sir:

On Saturday, August 11, we should have received your check for $1.86 which is the amount of our invoice as shown by the enclosed statement. You will doubtless agree with us that our terms of net 60 days are very liberal. We feel sure that the delay has been due to oversight rather than intent.

Please favor us with your check for this small amount at an early date. Your courtesy will be appreciated.

Yours very truly,

June Invoices

Dear Sir:

Is there any question regarding the correctness of invoices dated June 25 and 27 which amount to $7.14, as shown by the enclosed statement? Payment of these invoices is overdue on a basis of net 60 days. If you find them to be correct we believe that you will agree with us that an early payment is in order.

Please favor us with your check for $7.14 at an early date. Your courtesy will be appreciated.

Yours very truly,

June Invoices

Dear Sir:

You will note that our invoices of June 2 and 20 amount to $59.60 as shown by the enclosed statement. In accordance with our uniform payment terms of net 60 days, payment of these invoices became due on August 2 and 20 respectively. You will doubtless agree with us that inasmuch as your orders E-12076-5867 and B-14628-7252 were placed with us subject to 60-day terms, payment should be made as nearly in accordance with them as possible.

Please send us your check for $59.60 at an early date. Your courtesy will be appreciated.

Yours very truly,

Balance of Account

Dear Sir:

This amounts to $1.35 as you will note by the enclosed statement. In accordance with our terms of net 60 days which are absolutely uniform, payment of this balance is considerably overdue.

Doubtless the delay has been caused through oversight and we trust that you will not hesitate to extend us the courtesy of an early payment.

Yours very truly,

Stronger Reminders

When it is necessary to write more sharply, this manufacturer writes a stronger letter omitting some of the courteous phrases shown in the preceding correspondence and including a phrase suggestive of urgency. (See page 169.)

Settlement of Account

Dear Sir:

Apparently you have overlooked May purchases amounting to $82.70 as no check has reached us. May we rely upon you for payment by early mail?

Yours very truly,

Settlement of Account

Dear Sir:

You will find enclosed an itemized statement amounting to $370.90 covering June purchases. These items are considerably past due and should be given consideration. May we rely upon you for payment not later than Monday, September 3?

Yours very truly,

Payment of Account

Dear Sir:

Your April purchases as shown by the attached statement amounting to $320.60 are past due. An early settlement will be appreciated.

Yours very truly,

Payment of Account

Dear Sir:

We wrote you on August 10 and requested check to cover May purchases amounting to $659.55. Up to the present no reply has reached us.

Please let us know why payment is being withheld.

Yours very truly,

Past-Due Account

Dear Sir:

Our Credit Department wrote you on August 10 and requested check to cover April and May purchases amounting to $17.29. Apparently this correspondence has been overlooked as usually such matters are given your prompt consideration.

Please investigate and let us hear from you promptly as your check will be expected not later than Monday of next week.

Yours very truly,

Past-Due Account

Dear Sir:

Our Credit Department wrote you on July 2 and again on July 15 relative to payment of April purchases amounting to $220.70. We don't understand why your check is being withheld as, according to our records, there is no question in connection with these particular transactions.

We feel an explanation is due us and shall look for your reply on Tuesday of next week.

Yours very truly,

Payment of Account

Dear Sir:

Is there some question concerning the correctness of our shipments as covered by May 21 and 23 invoices amounting in total to $145.67?

We have written you several times concerning these charges and feel it is only fair that you either send us your check by return mail or advise why payment is being withheld.

Our records have been marked ahead to September 5.

Yours very truly,

Petty Accounts

The collection of petty accounts is peculiarly troublesome, because the credit manager cannot very well bring his heavy artillery into play on so small a target, while on the other hand he must exert pressure to bring the sum in before the expense of correspondence becomes too great. Appeals to fair play, good-will, and shame, are often effective. Many of the letters given above under the heading "Stronger Reminders," will serve for the purpose, as well as the following letters:

Dear Sir:

A statement of your account was sent you a few days ago, but we have heard nothing from you. The amount due us, $....., is small, and no doubt the matter has been overlooked. We would not bring this up again so soon were it not for the fact that we have thousands of accounts on our books, and delay in settlement causes us quite a little expense, and a great deal of trouble.

We know that you will appreciate this fact and send us a remittance by return mail, using the enclosed blue envelope.

Very truly yours,

Dear Sir:

Our ledgers show there is a little amount due us of 65 cents, as shown by statement attached.

Possibly this little amount has been paid, but our ledgers do not show it, so won't you please be kind enough to investigate and favor us with remittance if not paid?

If, however, remittance has been sent us, please state date and in what form, then we will not bother you any further regarding payment.

Thank you kindly for assisting us in the adjustment of this little matter.

Yours truly,

Dear Sir:

Can you tell us of any reason why your account as shown below should not be paid without further delay?

We cannot feel that it is other than an oversight that this

small balance should be allowed to become so long overdue, although several statements have been sent you if our records are correct.

You doubtless realize that it is customary practice to require cash in advance when bulbs are bought in Holland, that ocean freight, insurance, and duties have all been paid in addition months ago. Put yourself in our place—remember that we figured prices lower last season and delivered finer quality bulbs than are generally procurable; is it not fair to urge that a remittance be sent by return mail?

Very truly yours,

CHAPTER XIX

COLLECTION PROCEDURE—DISCUSSION

Constructive Work of Collection

After the account has gone through the reminder stage, it will probably go into the hands of a higher official, usually the credit manager. Here is the real opportunity for the constructive work of collection, which has been considered of such importance that the principles which govern its operation have been laid down in Chapters IV and V on resale; while the methods used by the credit manager to carry over into the period of delinquency the constructive work of credit education, together with many illustrative letters, are given in Chapters VII to XIII, inclusive. The work of the credit manager who visits the debtor either in person or by deputy, or who through letters and printed matter strives to increase his efficiency and build him into a better credit risk and an increased purchaser of his goods, is made the subject of Chapters XXVII, XXVIII on constructive credits.

A brief treatment only of the credit man's work in collections is given at this point for the sake of continuity.

"What Is the Trouble?"

If the creditor's reminders have been ineffectual in getting the debtor to pay through force of habit, the creditor may next inquire, "What's the trouble?" In the case of petty accounts or previous delinquents or other cases calling for urgency, he may decide to resort at once to drafts or other outside means.

But it is desirable that if he advances at once to the

stage of urgency, he should nevertheless explain his severity. Without this precaution many debtors will feel that they are being treated unfairly. In every walk of life and every kind of human relation, after a man has been reminded of his obligation, it is only natural to try to come to an understanding. Many customers may respond to severity used without explanation, just as many horses have patiently become used to bad driving and jerking on the lines; nevertheless, that is not the right way to drive a horse.

If a draft is to be used, the customer can be warned and given an opportunity to reply. The letter can contain a sentence like the following, "We regret to take this step, feeling that you would prefer us to adopt other means, but the necessity of maintaining our terms as the foundation of good business requires us to adopt measures which we believe your own good business judgment will approve." The creditor may use other appeals to explain this step; but he must never apologize for it.

We will suppose, however, that the account is fairly large or the customer in fair standing, or that the finances of the creditor permit the debtor an opportunity for explanation. A great number of houses the country over have discovered that urgency at this stage does not pay, that their drafts are returned, while the heavy turnover of trade year by year shows that some policy of the house is driving away established customers—possibly the collection policy. In the words of the general manager of a well-known wholesaler, "My assistants don't seem to realize, when they tell a merchant that they must have his check for $5,000 on a certain date, that he couldn't get that amount to save his life—not unless he went out and robbed somebody." In order to secure action, one must either make possible the action asked, or else ask for an action that is possible. Probably the account at this stage has been turned over to the credit

manager or some higher official whose duty it is to exercise judgment in such instances. By using one of a hundred means he can work for a reply, asking for an explanation accompanied by check, or an explanation letting him know precisely what to expect. Here is the opportunity for real skill in collection.

Sizing Up the Customer

With a record of the account before him, giving a history of the customer's present and past transactions—with a folder of credit information gathered from the salesman, from the customer direct, from rating agencies, and from many other possible sources, the credit manager proceeds to "size up" the customer, and to take the step adapted, in his judgment, to produce the money without forfeiting good-will or forcing the customer into bankruptcy.

He may be a jobber in St. Louis writing to a customer in Kansas. At his elbow are the latest reports showing conditions of crop, market, and weather, besides a digest and analysis of the comprehensive information collected by his salesmen, East, West, North, and South. Before his mind's eye stretch the wide, treeless plains of Kansas, and he knows this district is suffering from a drought. What is the use of crowding that merchant when the chances are a thousand to one that the farmers have no money and the merchants cannot collect? A friendly letter hinting at a possible arrangement, or offering outright a scheme of part payment, will be the method he adopts. "Mr. Homer is just in from your territory," dictates the manager, "and on the basis of his report, we do not doubt that you are suffering from the prevailing crop and weather conditions in your territory. Nevertheless let me say as one business man speaking to another that we cannot be expected to make arrangements that will reduce your indebtedness unless we know directly

from you what the situation is. Please paste the enclosed sticker at the head of your letter and then it will come directly to my desk."

"Raining in Southern Illinois"

"One of the young men in my office hasn't enough imagination or sympathy. He writes down a severe letter to a merchant who hasn't answered his reminders and he gets back an indignant reply saying that it has been raining in Southern Illinois, the roads are flooded, business is bad, people can't come into town, and he simply hasn't the money to pay. The trouble with my assistant," concluded the manager who made this observation, "is that he ought to know that it is raining in Southern Illinois."

Studying the Ledger

"I spread out the ledger before me and note the customer's line of business," said another credit manager. "I am a great believer, too, in really personal information; by that I mean notes from the salesman on the customer's build, the color of his hair, the way he shakes hands, and the looks of his store window. Wherever possible, I have a photograph that shows me these things. Many of them are clipped from our house organs and have served a double purpose in awakening the customer's pride, helping to increase good-will, and giving me as credit manager the chance to talk to him in a friendly, straight-from-the-shoulder fashion.

"Purchasers in a certain line of business," said this manager, "are always slow because their accounts are in bad shape," and he makes earnest constructive suggestions that show them where their advantage lies. Such correspondence, continued over a number of years, has had wonderful effect in both holding his customers and increasing their prosperity.

A Basis of Personal Acquaintance

"Some use the commercial agencies exclusively, but we go more by business references and the actual signed statement of the customer himself," said the credit manager of a corporation doing a $30,000,000 business each year. "Unless we know the applicant personally, we depend chiefly on his own statement. Up to July of this year I have used only 80 reports.

"From the form sent in, I find out with whom the merchant does business and how he stands in the community. Is he doing business not warranted by his capital? Has he been 'slow'? Has he asked for extension in the past, or given notes? Here is the record, for instance, of a man who will not answer a letter. I shall send him reminders, using various appeals, until I strike the one that gets the money. He never writes, but is gradually getting to be less slow in his payments. This memorandum tells me of another man who allowed his note to be protested. Nevertheless I knew he was good for the amount and I wrote him a kind letter that made him our friend for life besides getting us the money.

"Our customers are recorded as 60-day men or 90-day men; that is, they pay in that time. I gage my letters to them accordingly. Is it a first offense? What is the merchant's line of business? Perhaps he is stocking up with furniture for the fall. He is consequently under heavy expense, and I offer him part payment. If it is a habitual offense and a large account, I send him sharp letters. But on the average account, I write an educational letter showing that our cost and consequently our prices are based on prompt payment." It may be said in passing that this line of business owing to the rapid spoilage of goods necessitates very strict maintenance of its 60-day terms; nevertheless, resale policies are the foundation of its methods.

The "Branch House" Credit Manager

"When I was handling credit in the old A B C company," said the credit manager of one of America's largest corporations, "a personal knowledge of the customers was one of my greatest assets. I took pains in my letters to show personal knowledge and information about conditions in that territory which my local acquaintance gave me. Later, when that company was taken into this corporation, I passed on the same policies to my branch managers. That's what a branch house is for—to get into such close touch with the customers as to know the conditions of climate or business in their locality. I give the branch managers a pretty free hand because I want them to develop initiative and to hand me back their ideas. They get credit for them, too; if the office boy has ideas I haven't, I am glad of it. It is true, I let them have copies of my typical letters and my procedure, and they in turn send me back copies of their reports and their letters; but it is their initiative and their knowledge of local conditions on which we must place reliance. I believe in the credit department showing a warm friendly spirit to customers whether in person or by letter.

"One of our dealers was a queer, timid, old fellow and as deaf as a post. His account was always behind a couple of hundreds, but he liked our office manager and had confidence in him, so that when he came down to New York, he would hunt him up and take him out to lunch and pay his account. One day a new man in our office wrote him a sharp letter; he wrote back to me saying that if this were the way we were going to treat him he would stop doing business with us. This was a very extreme case, but nevertheless every customer is different from every other customer, and personal acquaintance and attention should be used in handling their accounts." Other "branch manager" letters will be found in Chapter XXV.

Friendly, Earnest Discussion

In addition to the letters shown in other chapters which may be used at this stage of the procedure, the following letters illustrate how the credit or collection manager may enter into a friendly, earnest discussion with his delinquent customer, getting attention by the length of his letter, as well as by its serious style.

The first letter makes an appeal to fair play by telling a story of the treatment which any right-minded man would condemn and then turning on the reader with the exclamation, "You are the man!"

Dear Sir:

What would you do if you were in my place?

Let me tell you a story without mentioning any names and then please tell me how you would act were you in my position as collection manager for The ..... Pen Company.

A man bought pens of us on credit. We treated him with every courtesy, giving him as good as we had; later on showing him every leniency when the bill became past due. But he paid no attention to our requests for payment made in accordance with the terms agreed upon, and continued requests in the way of fair and friendly letters brought not even a reply.

And now, if a man treated YOU in this manner, what would you do?

Exactly—just as you would do, so must we do, for YOU are the man!

If you believe in a square deal, show it by paying this account now in a straightforward man-fashion.

By so doing, you will save us both unpleasant legal and other processes.

The amount of your past-due account is $99.51.

We must have your check before the 19th.

Earnestly yours,

.....

COLLECTION MANAGER

A Suggestive Letter

A certain manufacturer had a distant customer concerning whom his information was slight. After his usual series of statements and reminders had been issued without getting a reply, he sent the following letter, which gets attention by its unusual "lay-out," while the sentence so strikingly emphasized contains an unpleasant suggestion for the debtor.

Dear Sir:

You are one of our new customers and this is our first credit relation with you. Our three statements, and our letters of January 1 and 10, have as yet been unanswered. This would indicate that something is wrong.

Did we not come to a satisfactory credit understanding?

Have we made some mistake on our charge?

How do you wish us to handle your account?

By all means be frank in telling us if any mistake has occurred, for you will find us more than willing to correct it.

Yours very truly,

Three Letters in Series

A silk manufacturer had obtained a wide distribution through an improved spool cabinet which appealed to retailers, but he often found himself lacking in credit acquaintance with the customer whose trade had thus been secured. Accordingly he adopted a policy of following his first statement with a series of three letters which were unusually successful in bringing answers promptly.

Dear Sir:

You have no doubt overlooked the statement we sent you on January 10, for $25.50, the price of our cabinet with the standard assortment of spool silk.

Will you not make a very special effort to send us a check as soon as you can? We always wish to be as lenient with our customers as we can, but as a business man yourself you can readily perceive the necessity in our line of business, of observing certain definite rules in the matter of payment. We are able to make a *free trial offer* and to extend valuable services to our customers, only as long as our present financial status continues. If we were not to insist upon the strict observance of this policy, we could not do business upon our present basis of high service to our customers.

We are sure that this policy benefits our customers, not only in the matter of improved service, but as the result of a careful and systematic method of handling accounts. For instance, you know that you, yourself, would rather trade where you knew that your accounts had been regularly and systematically paid; you would have got the "habit" and you would find yourself relieved of the bother and worry of getting off payments at irregular intervals. We have at heart the interests of our customers and this fact compels us to adhere to a systematic method of handling accounts.

We are very pleased to learn that your cabinet has proved satisfactory and trust that we will soon be able to supply more spool silk for it.

Very truly yours,

Dear Sir:

Unfortunately we have received no reply from you to our letter of January 24, requesting the remittance of an overdue item of $25.50.

We would appreciate it very much if you would write us out a check and send it in the *next mail.* No doubt your clerks have overlooked this matter, but as our policy of payment was mailed along with the bill of sale, and as we have since explained the advantages of a systematic method of handling accounts, we are sure that you will be glad to have us bring the matter to your attention again.

If you are encountering any difficulties that make it impossible for you to remit promptly at this time, we would urge you to explain the exact situation to us. Come to a full and open understanding with us. We assure you that our interests and the interests of our customers are the same; our attitude is one of service.

Will you not show your good-will by mailing that check?

Very truly yours,

Dear Sir:

As we have not heard from you in response to our letters of January 24 and January 31, asking for a remittance of your account of $25.50, we must now ask you to send us a check before February 20.

We have endeavored to explain to you the necessity of a systematic policy of payment on the part of our customers. We regret that we can only infer from your silence that you do not care to acquiesce in our requests—reasonable as we have shown them to be. We shall now be compelled to draw on you through the First National Bank of ....., in case your check does not arrive on February 20.

We hope that you will not make this step an actual necessity.

Very truly yours,

Two Lumber Letters

A lumber manufacturer found that his customers, proprietors of retail lumber yards, were good fellows personally but poor business men. As a part of his campaign to educate them in better dealings and consequently to improve profits for themselves, he prepared the two following letters which base their appeal on mutual pride in the lumber business.

Gentlemen:

We are sorry to find that your bill of $810 due March 1, 1918, is still unpaid. Since we have received no comment on the statements enclosed in our letter of April 2, we assume that the amount is correct, and we are therefore unable to account for this delay of another month.

Situated as we are, a thousand miles apart, it is hard for each of us to realize that the other is a company of hard-working, practical business men, both interested in pushing the lumber trade by conducting our business on a prompt and efficient basis.

If we could get this idea, if we could establish the personal element in our relations, it would mean much to both of us.

Let us keep this thought in mind and really feel that our obligations to our fellow lumbermen a thousand miles away are just as important as those which we owe in our own town.

Take a few minutes and write to us. It will help us to get better acquainted, and remember, it all helps the lumber business.

We enclose another statement. Will you please check it with the invoice and forward the amount promptly?

Very truly yours,

Gentlemen:

Two weeks ago we wrote you a letter enclosing a statement of your account amounting to $810 due March 1, 1918, three months

ago. We asked you to write us a letter. We wanted to get acquainted with you.

The letter didn't come, neither did the $810. Frankly, we were disappointed. We thought that we deserved both. We sent a fine carload of lumber. We sent our statement promptly, and we wrote a letter trying to find out what the trouble was when the money didn't come.

All of this brought no results. We like to deal with lumber retailers because they treat us as fellow lumbermen.

You, as the leading retailer of Neilsville, are in a position to boost the lumber business or hold it down by your business methods.

Set them at a level that you will be proud of as a lumberman.

There is no uncertainty or question about this obligation of $810. It is a single invoice which we are sure you found correct, and we therefore expect that you will write to us promptly enclosing the amount.

Very truly yours,

An Unusual Letter

The following letter by reason of its unusual style and its appeal to pride and fair play produced good results when employed by a certain manufacturer to bring in the money from a list of habitually careless retailers.

Dear Sir:

We appreciate the fact that you stand in a rather enviable position. Your credit is good, and our protests against your neglecting to pay our small bill of $25.60 after receiving several reminders cannot, you believe, affect your business standing. However that may be, it is embarrassing and troublesome for us to have to remind you of a bill that you are really able to meet at any time.

In your own business it doesn't exactly pay to go after the man who owes you a few dollars. Neither does it pay us to do so.

You know that your bills against your customers represent transactions entered into in good faith. You are right in your belief that these men are in duty bound to pay you or at least to offer an explanation. Wherein is our case different from your own?

It is our object to take care of your future orders as it is our object to establish better credit relations with you.

Our wish is that our business interests may bring us together in the near future.

Yours truly,

CHAPTER XX

COLLECTION PROCEDURE—URGENT

Various Methods of Credit Manager

Enough has been said in the preceding sections to show the general attitude of the credit manager or higher official who has in charge correspondence with a customer who has failed to reply to reminders. If the customer fails to take the opportunity given him for sending in a reply, or if for other reasons more urgent means must be adopted, the manager still has several options. He will probably try the effect of a draft; he may give warning that an attorney or some other outside agency may be employed; he may endeavor to secure through a salesman or a traveling credit representative, some personal information about the customer's affairs that will lead to an adjustment; or he may try various combinations of appeals to advantage and obligation with strong emphasis on the resale point of view. When once a reply has been received, he can proceed on the basis of the information it contains.

Making Drafts Effective

While a draft is a good "attention-getter," it is often handled so carelessly as practically to destroy its efficiency. "I have seen drafts so carelessly written," says J. H. Tregoe, secretary of the National Association of Credit Men, "so badly printed, and even dirty and crumpled, that the debtor could hardly be blamed for disregarding them." In some localities it is said that drafts have become so common as almost never to receive attention. In Canada, it is common

practice to follow one draft by another, almost as in the United States one collection letter is followed by another.

To make the draft effective, then, it should be accompanied or preceded by a letter to heighten its effect in the customer's mind. Some business men are greatly offended by a draft; others never pay except when drawn on; and still others give trumped-up excuses for dishonoring them.

"We are very reluctant to take such measures or even to mention them," says one credit manager. "We certainly do not wish to take such a step without giving you an opportunity to respond, and accordingly we shall withhold the draft until April 10, at which time it will be sent you through . . . . ." Another company uses a powerful letter urging the delinquent to "pay this draft," reasoning that, as the draft in itself secures attention and does not arouse much fear, the letter should increase the effect upon the customer's attention. At the same time the letter contains an appeal to the customer's fair play and pride in the suggestion that by honoring the draft he will show his preference for friendly dealings.

Another method is to explain courteously why the draft is issued and what are the credit requirements which demand settlement within a certain time, with an expression of regret, because "we are well aware that business men in many instances do not like drafts." Such a letter should be used, say ten days in advance, as an evidence of fairness.

The following letter was used by a manufacturer with slow- and poor-pay customers, or those who habitually paid only when drawn upon.

Gentlemen:

Evidently our letter of June 14, wherein we requested a remittance covering a past-due account has been overlooked. It happens sometimes with the best of us.

Under the circumstances will you make settlement direct or honor a draft six days hence through the First National Bank?

Unless your check is received we take it for granted that we have your permission to draw and that draft will be accepted.

Yours respectfully,
COLLECTION DEPARTMENT.

An Objection to Drafts

A certain large jobber uses drafts less than formerly, having found errors in many of them because of clerical mistakes. Sometimes these mistakes originated in the house, but more frequently through the customer's fault. For example, a small storekeeper who was in partnership with another man, would have the habit of signing his own name to checks. The draft would accordingly be made against him, though it should have been made against the partnership. Or a man doing business in one town might send in his check while he was in another town, with nothing to indicate his real location. This then would be entered to the credit of his name but in another location, possibly in the belief that it was a cash payment from a new account. Mistakes of this sort would be less likely to happen if this house did not do business with such an enormous number of customers, the great majority of whom are small storekeepers, some of whom are unacquainted with business customs.

When a Draft Is Refused

If a draft is refused and a reason assigned, the creditor can write letters which force the debtor either to pay, or to take the position of deliberately withholding payment. In the latter case another draft may be sent with notice that following refusal the account will go to attorney; or warning of the attorney may be given without recourse to another draft.

The following letters represent the correspondence which may follow the refusal of draft.

Gentlemen:

A very small sum is owing to us for goods you purchased last year, amounting to $9.60.

We have written you several times suggesting that you make payment and recently sent you a draft, after giving you ten days' notice of our intention to do so. The draft has just been returned with the curt remark that it was refused.

Under the circumstances we begin to feel that you are purposely neglecting this matter.

Please give attention to this request for payment now in order that the matter may be closed.

Yours very truly,

.....

CREDIT MANAGER

The following letters are designed to put the delinquent in a position that he cannot defend, so that he must either settle or brand himself as bad pay. Similar letters can be prepared to fit any of the excuses which may be given by a debtor:

Dear Sir:

Our draft of April 4 has been referred to us by your bank and in reply to our inquiry they state that you claim not to owe us this amount.

As it is correct according to our books, we respectfully refer the matter to you for more definite information.

Yours very truly,

Dear Sir:

Our draft for $122 together with B-L has been returned by the bank, no reason being assigned for non-acceptance.

As this order was filled and shipped in entire good faith and in accordance with your instructions, we feel that we are entitled to a letter of full explanation by return mail.

Yours very truly,

Dear Sir:

Our draft of March 8 has been returned to us by your bank with a notation on the back that the amount is incorrect. As we find

that it agrees with the account as it appears on our books, we would ask that you kindly explain to us wherein the difference may lie.

Yours very truly,

Dear Sir:

Our draft of September 9 has been returned to us by your bank. They advise us in reply to our inquiry that you claim to have remitted to us direct to cancel the charge.

We have made diligent search, but fail to locate any trace of remittance and therefore refer the matter to you for more definite information.

Yours very truly,

Dear Sir:

Our recent draft has been returned by your bank with a notation on the back to the effect that they do not wish to present it until we advance the charges.

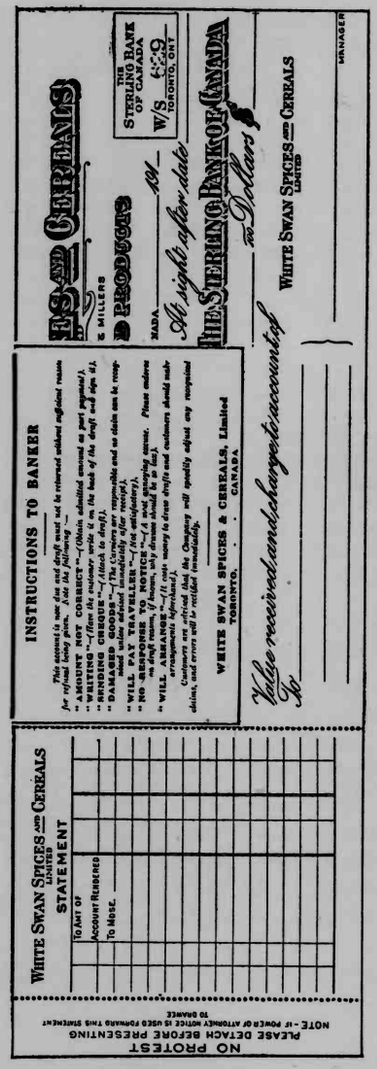
Our ledger records show that you have been previously notified of this indebtedness which is past due and we hardly feel that we should be asked to incur any expense in collection of the amount.

We trust that the matter may be arranged so that prompt shipment can be made. Should there be any reason why we have not heard from you we will appreciate particulars.

Yours very truly,

A Good Method of Sending Drafts

A very thorough procedure has been worked out by A. M. Brooke, president of White Swan Spices and Cereals, Ltd., of Toronto, Canada, to insure that drafts are given proper attention by members of his own organization, by the banks issuing them, and by the drawees. Banks frequently send out inexperienced young men who are easily put off by the drawee with a flimsy excuse. To meet this situation, a slip of instructions to the banker is pasted to the front of every draft, showing seven of the commonest excuses and giving the bank definite directions for action in case any one of these is offered by the drawee. (See page 214.)



Making Drafts Effective

The instructions to bankers are printed in red and pasted right on the front of the draft, where they cannot be overlooked.

Every bank with whom the company deals has also received a copy of a sheet, "Instructions to Collection Clerk." These are represented herewith.

Instructions to Collection Clerk

The Collection Clerk should understand that a note of draft is more than a mere "scrap of paper." It is just as much real money to the customer as a $5 bank note is in that they both have a certain face value. Neither one is of intrinsic value excepting when turned into gold.

In the process of turning a customer's paper into cash the bank has every right to exercise scrupulous care in completing the negotiations, and the simple fact should be kept in mind that when one party draws on another the assumption is that the drawee owes the money.

Rather than to return a draft with some indefinite reason, it would be better, in the case of a disputed amount, to accept a payment on account advising the drawee that the drawer will be required to make whatever adjustment may be necessary. That is, provided that it is the drawer's error. Point out to the drawee that it is not possible for a bank to discharge on behalf of the drawer any debt that may be owed by the drawee. No matter what the banker may do, the relation between the drawer and the drawee remains the same, and if the drawee for instance were to pay the drawer more than is owed, he could recover by having recourse to law. In other words, it simply means that if A owes B a certain sum of money and it is collectible by law there is nothing that C could do when merely acting in the capacity of an agent that would discharge the debt; excepting, of course, when A paid to C as agent and received a receipt for the full amount of his debt.

Many retail customers of large manufacturers and wholesalers, appreciating how easy it is to let a draft go back by simply not paying any attention to it, take advantage of this situation. Besides keeping the manufacturer out of his money, this practice causes endless and needless annoyance. When the drawee gives a reason for refusal, for instance, "Writing"—let him write the reason on the back of the draft and sign it.

When he says, "Amount not correct"—ask him to pay the correct amount.

The attached slip of instructions to banker goes back with every return draft.

A Common Cause of Complaint

Banks can hardly be blamed for carelessness in handling drafts if no fee accompanies them. A wise precaution is to send a fee with the letter asking the bank to exercise all care in presentation, referring to the fee and offering to send an additional fee if the practice of the bank requires it.

Various letters relating to the use of drafts are shown in the following chapters.

The "General Manager's" Letter

After having taken all reasonable steps without results, many houses are in the habit of allowing an additional time to elapse before turning the account over to an outside collector. In a great number of instances it has been found advisable to utilize this period by making another appeal of a different kind from some higher official of the house. The following is an example of this.

Dear Sir:

The credit department has just laid on my desk the folder of your correspondence with the recommendation that we send your account of $..... to our attorney for collection.

You cannot blame them for their attitude, because there has been no response to their several letters, regarding your account. However, I cannot bring myself to take any drastic action without writing you personally. I really believe that it is an oversight, and that you will take care of this item at once.

I am sure that you will answer me promptly, and I am going to place your folder on my desk, awaiting your reply and remittance. Please do not fail me, as I am doing this against the advice of our credit department.

Yours very truly,

.....

GENERAL MANAGER

The company issuing this letter sells vacuum cleaners direct to dealers. "It has produced better results than any other in our experience," writes the president. It is of

course an adaptation in principle of the "discussion" letter from the credit manager. (See Chapter XIX.) Its psychology is discussed on page 161.

Warning of Legal Action

A certain hardware jobber in the Middle West, when he intends to transfer an account to a local attorney, first sends the customer a letter giving warning of draft to be followed by attorney's action:

Dear Sir:

According to our bookkeeper's report, the past-due bills in your account amount to $..... and as the invoices of ..... are still unpaid, we are at a loss to understand why our several urgent letters asking for a settlement seem to have been altogether ignored. If you realize that you have not yet paid for goods sold to you on 60-day terms more than ..... months ago we think you will concede our treatment of your account has been exceedingly considerate and that we are entitled to be paid without further delay, expense, or annoyance. We shall be greatly obliged if you will promptly forward a remittance of $.....

Should you make no response to this letter we shall be forced to the conclusion that more effective measures must be adopted to gain this long overdue settlement and accordingly on ..... your remittance not having been received, we shall draw upon you through a bank in ..... for the above mentioned amount and the bank will be directed to place the claim in the hands of our local attorney for prompt action in the event the draft is not paid on presentation. We are reluctant to adopt such severe measures or even to mention them but cannot grant a further extension and must find some means of making the collection. After the accommodation you have had from us we hope you will not put us to the annoyance and expense of collecting from you in this manner.

Yours very truly,

Failing to hear from this, he sends a copy of the letter shown below to the customer's bank, accompanying it with a letter from the house attorney to be handed, in case of failure to honor the draft. to an attorney named therein.

Gentlemen:

Our sight draft for $..... representing goods sold on 60-day terms in ..... and ..... to ..... of ....., together with interest on the amount is enclosed. Their mercantile ratings are very good and we utterly fail to understand why no response to our several letters urgently asking for a settlement has been made. Quite likely it is a case of carelessness and we wish you would kindly use your best efforts to collect this item. If you succeed in collecting before the end of this month, charge us with a commission of ..% for your trouble.

If you are unable to collect by ..... kindly hand or mail the draft, together with this letter, to attorney ..... of ..... who will understand that we take his name from the Attorney's National Clearing House list and that we wish him to adopt promptly such measures as may be necessary for immediate collection of the account. If the claim goes into the hands of the attorney, we should like to have him notify us of that fact at once.

We thank you in advance for your assistance in this matter and enclose ..... cents in stamps to cover any postage expense you may be put to.

Yours very truly,

This is the letter written to the bank by the attorney for the house, which is handed by the bank to the local attorney:

Gentlemen:

I enclose a draft for $..... upon ..... of ..... You will notice the draft is drawn by ..... to my order and is indorsed payable to your order.

I understand debtors are financially responsible and there is no dispute as to the correctness of the account. Their letter of ..... to ....., traveling salesman for my client, promising to pay in full within a week or ten days, is attached.

Why the debtors do not pay has not been explained. The bills were sold on 60-day terms and some of the items, as you will observe, are now about seven months overdue. A further extension is out of the question. Will you kindly use your best efforts to collect the claim? If you succeed in collecting it before ..... charge me ..% for your trouble. If you fail to collect it by ....., please hand or mail this letter together with all of the papers enclosed to attorney ..... of ....., who will accept this letter as his instructions to bring suit or to adopt

whatever line of action seems necessary for the prompt collection of this long overdue balance. In that event I would like to have him notify me as soon as the papers reach his hands.

I hope you will be able to make the collection yourself and thank you in advance for your best efforts in that direction. To cover any postage expense to which you may be subjected, I enclose ..... cents in stamps.

Yours very truly,

A letter sent the delinquent under similar conditions by another house is the following:

Dear Sir:

Our draft of August 1 has been returned by our bankers marked "no attention." Previous to sending this draft numerous statements and letters were sent to you requesting a check to cover this long past-due account.

We dislike very much to take any action that would cause you annoyance and inconvenience but unless the matter is given proper consideration immediately, we shall place all papers in the hands of our Legal Department.

Assuming that you may prefer to make payment direct and avoid suit, we will hold our action in abeyance until Wednesday, September 10. Upon failure to receive payment within the stated time other steps will be necessary.

Yours very truly,

.....

CREDIT MANAGER

Other Threats of Suit

Other letters giving warning of legal procedure are shown below:

Dear Sir:

Having been unsuccessful in our attempts to draw out a response of any sort to our requests for a settlement of your past-due account we take it for granted that you would prefer to deal with our attorneys and are governing ourselves accordingly.

We believe matters will be arranged amicably and without extraordinary delay or expense.

Yours very truly,

Dear Sir:

Our various letters and telegrams remain unanswered. Your March, April, and May purchases amounting to $95.15 as shown by the attached statement are long past due.

We have been quite lenient in allowing you this extra time and must now insist on immediate payment, otherwise the matter will be placed in the hands of our attorney for immediate attention.

Please do not oblige us to follow this course as under the circumstances it will prove distasteful to you as well as to ourselves.

Yours very truly,

.....

CREDIT MANAGER

Dear Sir:

You have defaulted on the payments of your account for over three months, and therefore the full amount automatically becomes due.

As you have not responded to our letters we are drawing on you this day through the ..... for the full amount of your contract, and, unless this is paid promptly, our attorneys will be instructed to proceed against you.

Please be ready to take up the draft when the bank presents it.

Yours very truly,

CHAPTER XXI

COLLECTION PROCEDURE—THE ULTIMATUM

The House Collection Agency

Many houses desire to keep their hands on an account as long as possible. To protect a customer against harsh dealings from an outsider with consequent loss of good-will and to save for the house the collector's fee, they try the effect of one or more form letters and a draft issued on a letterhead bearing the name of a collection agency—they themselves being the agency. The following letters were employed by a manufacturer selling direct to customers. The first one was sent to the customer.

Dear Sir:

We have been informed by the B. F. Heath Co. that they are unable to get any satisfaction from you, regarding their invoice of ..... for $....., which is for goods purchased by you.

They have turned this account over to us for collection, but before we do anything, we want to ask if it is not possible to have a friendly settlement. We are sure that our client would prefer this, and it certainly would also be to your advantage.

If, however, we do not hear from you by ....., we shall be obliged to forward a draft for this amount to your local bank with instructions, if it is not paid by you, to hand it to our attorney in your city.

We hope, however, that this action will not be necessary.

Yours very truly,

..... COLLECTION AGENCY

By .....

The following is a letter which the manufacturer sent to the bank:

Gentlemen:

Enclosed you will find our draft drawn on ..... for $....., for the goods shown on the enclosed bill. This bill is a copy of the original invoice of our client.

Will you please see that this draft is personally presented to Mr. ..... and if it is not paid by him, please turn this entire matter, including the refused draft and the duplicate invoice over to ....., Attorney at Law.

Yours very truly,
..... Collection Agency
By .....

The following letter was sent to the attorney, together with a copy of the bank letter:

Dear Sir:

Enclosed you will find copy of our letter, to the ..... Bank, regarding our account against ..... We ask them to deliver this to you for collection, under the usual collection terms of 10%, unless otherwise agreed upon.

Yours very truly,
..... Collection Agency
By .....

Another company selling on instalments, desires to preserve good-will as long as possible. Accordingly at the end of lengthy correspondence it issues two letters at 15-day intervals on the letter-head of its own agency. Harsh language is avoided.

Dear Sir:

Our client, the ..... of New York, has instructed us to collect a claim which they hold against you amounting to $.....

The chief facts in the case, as reported to us, are: You signed on ..... a definite contract to pay $..... for goods and service rendered by them. Our client alleges that he has lived up to his contract in every respect, and that you, on the other hand, have disregarded your obligation. According to our client's records you have paid only $..... and the total balance of the account is now long overdue.

Do you dispute this statement of facts? Have you any counter claim? Is there any reason why you should not pay the account as stated?

An envelope for your use by return mail is enclosed. Please see that it brings either a definite statement for us to submit to our client or a remittance.

Yours very truly,
..... Collection Agency
.....
Manager

Dear Sir:

Please refer again to our letter which was written with one purpose in view—to adjust your account of $..... without further expense and damage to your credit reputation.

Our long experience in the collection of past-due and delinquent accounts suggests a number of possible ways to treat this particular account.

In the absence of a statement from you relative to your position in this matter, we shall assume that you do not care to defend your action and shall proceed accordingly.

Whether or not you do reply to this letter is, of course, a matter of your own judgment.

We shall withhold further action for one week.

Yours truly,
..... Collection Agency
.....
Manager

Still another instalment company, after giving the debtor many opportunities for payment or explanation, issues a letter on agency stationery, more severe than those shown above. At the same time it sends a printed form to the bank. The harshness is explained by the unusual credit risk taken in this instance.

Dear Sir:

The A B C Corporation have sent us your account for collection.

You know all about the numerous letters they have written you. You know how you have failed to fulfill your part of the contract made with the A B C Corporation. So it is unnecessary to spend any time trying to convince you why you should do as you had agreed to.

Perhaps you do *not* know that *collecting* debts which people contract and then fail to pay is our *specialty*. This is how we make our living.

Perhaps you do *not* know that we want *immediate* action from you regarding this account.

When an account is given us for collection by any of our clients, our system is to write ONE letter to the debtor. *This* is *the one* letter to you. It gives you the chance to settle your account without a law suit. It gives you the chance to make any explanation you have to offer for past carelessness and neglect of your just obligation. It gives you the opportunity to resume your payments and conduct your affairs with the A B C Corporation on a business-like basis.

Our method of handling accounts like yours is to send this *one* letter and also to draw a draft. So we have today sent you this draft in care of your local bank. It is important that you arrange to honor this draft. The bank has instructions to give you five days to arrange to pay it.

Now about paying this draft, allow us to tell you something, based on our long experience in collecting debts. If you pay this draft, it is almost certain that you will continue to settle your account without further unpleasantness. And if you do *not* pay the draft, it is certain you will be sued, not only for the balance due the A B C Corporation, but *with the Court costs and attorney fees added.*

For our system provides that when a debtor does not take advantage of this ONE letter—does not pay the draft—does not seem to care whether the debt is paid or NOT—we send the account to a local attorney, with directions to bring suit at once.

So from every standpoint—yours—ours—the A B C Corporation's—we hope you will give *immediate* attention to this letter. Pay the draft and write us as to exactly what you can do about the balance of your account.

Yours very truly,
THE METROPOLITAN COLLECTING CO.

The following is the draft and memorandum sent to the bank:

New York City .....
$.....

Value received and charge account of
To.....
.....
.....

At five days' sight, pay to the order of the bank named below
..... *Dollars*

METROPOLITAN COLLECTING CO.
203 Broadway
New York City

For credit on our account with .....

Gentlemen:

We ask you to present for payment the attached draft to your order.

Please return this memorandum when sending remittance, to enable us to identify the account drawn against.

In the event that this draft is returned UNPAID, we would appreciate knowing whether we have the correct address and if so, what reason is given for non-payment.

Kindly have this draft presented personally. We enclose presentation fee. If there is a further charge we will be glad to pay it.

Yours very truly,
THE METROPOLITAN COLLECTING CO.
203 Broadway, New York City

The Telephone in Collections

When a customer hears through the telephone the voice of the credit manager asking, in a quiet tone, for settlement of his account or a definite arrangement that will clean it up, the effect is almost as if this important official had turned collector and walked into his place of business. It combines the urgency and attention-getting quality of the usual collector, with the personal prestige of the credit man. The customer finds it very hard to avoid giving a definite answer. The quiet tone of voice suggests possible embarrassment in case the conversation were overheard. Frequently the

debtor will be obliged to answer the telephone in the presence of other persons, and while he may use this as a reason for wriggling out of a reply, in more cases he will make some arrangement.

For the careless or tricky debtor this conversation can be made brief and incisive, though the language should always be very carefully restrained. Under different circumstances the tone can be definitely friendly, and the speaker can show an interest in his customer's business, closing, of course, with a definite request for action.

The Registered Letter

When the account has reached the stage of urgency, a registered letter has the value of assuring the creditor that his communication has been received; if no reply is forthcoming, the debtor has definitely "classified himself" by deliberately overlooking his obligations. A courteous assumption to make, in case the registered letter is used, is that previous correspondence has been overlooked by some subordinate, and this means is taken of bringing the account directly to the attention of a responsible official.

The Telegram in Collections

"If you could see a merchant's desk, you would understand why a telegram has value," says a hardware jobber. "Letters are lost on it."

The three following paragraphs are taken from a Western Union Telegraph folder entitled "The Telegraph Is the Surest Way."

The Facts. Many large business houses have solved the problem of collecting from slow-pay customers and raising money on bad debts. They use the telegram.

This idea of using the telegram was suggested to a number of representative firms. Several expressed disbelief in the telegram's

superiority as a collecting agent. They were persuaded to give it a trial. The results were astonishing.

Remittances were received on accounts upon which all other methods had proved futile.

The Reason. The telegram gets results because it commands preferred attention. Its brevity and urgency suggest immediate action. It makes a lasting impression.

The telegram carries a punch that cannot be obtained in a letter.

Try It Out. Pick out your delinquent accounts and send collection telegrams. You can use night letters, day letters, or fast telegrams—each one gets the same satisfactory results. Only one copy of the text and a list of addresses is required.

The telegram, as your busiest agent, will soon become your biggest collector.

The Western Union Telegraph Company suggests the following telegrams for collection purposes:

1. Expected remittance not received. Cannot wait longer. Please remit immediately.
2. Your old account must be paid. Unwilling to wait longer.
3. Our patience is exhausted. Must have account paid at once.
4. Unwilling to wait longer, account overdue. Please remit at once.
5. Will draw on you Monday unless we receive remittance.
6. Our account long past due. Please remit at once.
7. Please remit for account due. Imperative need. Thank you.
8. Our account long overdue. Please remit by return mail.
9. We call your attention to our account.
10. Your delay in remitting very annoying. Your prompt attention requested.
11. Expect payment on account without further delay. Don't disappoint.
12. Regret cannot extend further credit until account is paid.
13. Pleased to fill order when you remit for account due.
14. A remittance for our invoice of December first much appreciated.
15. Unless remittance is received promptly must decline further credit.
16. Have you overlooked us? Oblige us with check if possible.
17. Why don't you answer our letters? Account must be paid without further delay.
18. Why have you not paid December invoices? Remittance greatly appreciated.

19. Should not telegraph unless very imperative. Kindly send check on account.
20. Disappointed no remittance from you. Make a noise like a check please.
21. Very important remittance reach us on Monday. Large payments to meet.
22. Understand your collections are good. Kindly let us have check on account.
23. Wire our expense if we can have remittance by December first. Your help appreciated.
24. A check for account by return mail will be of great assistance.

The Outside Collection Agency

The function of the collection agency, as stated at the beginning of this chapter, is to save the credit man time in dealing with slow and doubtful accounts to which he has already given as much attention as he thinks desirable. The disadvantage of employing an agency is twofold. First, it is likely to injure or destroy good-will; and second, the creditor may fall into the hands of an unreliable agency. For this latter, however, there is no excuse, as good agencies can be found in every section of the country. Many of the best agencies, moreover, take extraordinary pains to show fairness and to act as skilled mediators between creditor and debtor.

The effect of the agency on the debtor is largely psychological; if this were not true, the agency would in every case proceed directly to suit. When approached by it, the delinquent realizes that the time for evasion and neglect has gone past. His fear of ultimate consequences is sharpened, but he knows that he still has many opportunities for a slight delay before driving the agency to the expense of suit. Accordingly, one of the best cues for the agency is to point out that every additional delay will merely result in more expense for the debtor.

Use of Appeal by the Agency

All the resources of collection psychology lie open to the collector or outside agency, with much of the same force that they possess for the creditor. Only resale arguments lose much of their meaning when proceeding from it, because the agency has no goods to sell nor credit to extend. But even so, it can urge with great force the debtor's advantage in maintaining his standing. This will have less effect if all these arguments have already been canvassed by the collection manager for the creditor; but many business houses, both retail and wholesale, utterly fail to use means of collection that lie ready near their hands, and turn the account over to the agency before even ordinary means have been exhausted. The agency can have the history of the transaction before it and can judge for itself what steps will be most effective. It can resort to draft, with notice in advance, it can employ letters either form or dictated, it can be both lenient and severe, before resorting to whatever legal steps it deems advisable or reporting to the creditor that circumstances do not appear to justify suit.

A successful retail collector recognizes this situation by beginning one of his letters: "This claim was left with us for collection, not because of any less confidence in your word of honor or integrity, but because our client is desirous of getting the account settled and charged off his books." His letters are characterized by insistent questions, canvassing the whole list of reasons for the debtor's failure to reply and urging an answer in order to safeguard his reputation for promptness. He warns the debtor that he never gives up; vigilance and persistence are his mottoes; he will not rest so long as any reasonable means can be found for securing payment; but when these are exhausted, he will certainly and unhesitatingly use the legal means that lie ready to his hand.

The Service of the Agency

What is the service of a collection agency? One of the forms employed by a well-known agency is reproduced herewith. A letter from the creditor gives warning that the account will be handed to a bonded attorney. Following this, the creditor sends direct to the debtor an advance notice of draft, informing him that if the draft is not honored the account will be turned over to an attorney for collection. The next step is to mail the draft to the bank. The sheet of which the draft is a part (see illustration, page 231) bears a slip instructing the bank, in the case of failure to pay, to hand the draft to an attorney who is named below. The slip of instructions to the bank can be torn off; the letter of advice to the attorney remains a part of the draft. A duplicate of this sheet is mailed direct at the same time to the debtor with the exception that in place of the slip of instructions to the bank the uppermost slip is addressed to the debtor informing him of the steps that are being taken. Thereafter the account is in the hands of the attorney for collection under special conditions, printed on the back of the draft.

The Local Attorney as Collector

Among the quantities of claims turned over to any local attorney for collection some will be upon people he knows to be "good," some will be upon those he knows to be notoriously poor pay, and some will be for goods that were purchased through oversolicitation of salesmen or that turned out not worth the purchase price. The strength of the attorney in every case is that he is on the ground and by personal conversation can discover where the cause for disagreement, if any, lies. If he shows fairness and friendliness, combined with an unhesitating determination to take the necessary steps, he can, in most cases, secure without friction any

SUBJECT: DRAFT ON

DEBTOR.

OF

We take the name of your Bank from the "Correspondent Attorneys' Quarterly" of the United States Fidelity and Guaranty Company, Baltimore, Md.

INSTRUCTIONS TO BANK.
(To be torn off before presenting.)

Gentlemen:

If attached draft on the debtor named herein is paid at maturity, PLEASE REMIT PROCEEDS DIRECT TO THE UNDERSIGNED.

IF NOT PAID, *please promptly deliver or mail same in enclosed stamped and addressed envelope to the attorney named below.* DO NOT PROTEST.

$

WITH CURRENT EXCHANGE.

Holding Bond of the U. S. F. and G. Co.

LETTER OF ADVICE TO ATTORNEY,

Identifying a Holder of the Bond of the United States Fidelity and Guaranty Company.

To

ATTORNEY.

Address

Dear Sir:—Payment of annexed Draft having been refused, you are hereby authorized to take prompt action for its collection on the terms stipulated on the back hereof. Promptly acknowledge receipt and advise what course is best to pursue. Wire, if in your opinion the circumstance warrant.

Respectfully,

REMIT ALL MONEYS COLLECTED BY P. O. MONEY ORDER, BANK EXCHANGE OR EXPRESS.

Address

☞ DO NOT DETACH FROM DRAFT.

Holding Bond of United States Fidelity and Guaranty Co., Baltimore, Md.

DRAFT OF A HOLDER OF THE BOND OF THE
UNITED STATES FIDELITY AND GUARANTY COMPANY'S
DEPARTMENT OF GUARANTEED ATTORNEYS.
Total Resources, Over $7,500,000. Home Office, BALTIMORE, MD.

$

WITH CURRENT EXCHANGE.

19

At *sight, Pay to the order of the* *Bank of*

the sum of *Dollars,*

WITH CURRENT EXCHANGE.

Value received and charge to account of

To

DEBTOR.

Address

Address

Holding Bond of United States Fidelity and Guaranty Co., Baltimore, Md.

Agency Draft

This form shows the duties of bank and attorney in clear and simple outline. The duplicate to the drawee has a letter to him on the upper section instead of the instructions to the bank. (This form patented in U. S. July 21, 1914.)

accounts that are really collectible. "I have absolutely no interest in this matter, except to see that fairness and justice are done," writes one attorney. "Please call on me on the day you get this letter or call me up by telephone and make an appointment so as to get this matter off your mind with the least possible annoyance."

The Bank as Collector

Good advice on this head is given in the December, 1910, Bulletin of the National Association of Credit Men. When a draft has been returned unpaid and there is but one bank in a town, a new draft should be sent with an itemized statement. Allow the bank 1 or 2 per cent for collection; it is often wise to give the banker the full facts of the case. Frequently the bank, as the result of a carefully worded letter, will succeed in collection where an attorney might not be able to succeed short of suit, if at all. Often the creditor will find it satisfactory to address the cashier instead of the bank itself. Copies of all letters sent by the creditor to the debtor, can, after the account has been turned over, be sent to the bank together with the explanation that they are written to help the bank in its work.

One well-known jobber is accustomed to ask a bank to try to collect $200 on a $500 account within 10 days after receipt of the papers; to collect $150 more in the succeeding ten days; and to secure the remainder within another 10 days. According to its success with this program, the bank is offered 2, 3, or 5 per cent. If it fails to collect, it is instructed to send the papers at once to an attorney named by the creditor. In making large use of the banks under this program, this manager has found it advisable always to enclose 25 cents in stamps with the papers.

CHAPTER XXII

TYPICAL COLLECTION PROCEDURES ANALYZED

Procedure of a Wholesale House

A certain large wholesaler of men's furnishings adopts in general the practice of issuing before the bill is due a statement without comment and stamped "Not due." This he follows with a statement without comment when the bill is due. If the customer takes a discount when not entitled to it, a leeway of a week is allowed on the assumption of error; but if more than this is taken, a letter is sent without fail. If no remittance is received within a week or ten days, a simple, courteous reminder is issued, followed after another interval by a similar letter. When the account is a month overdue it is turned over to the credit department by the bookkeeper who has been handling previous steps. Then follows a letter from the credit department, working for a reply. Part payments are frequently offered. The manager and his assistants maintain a diplomatic attitude, endeavoring to use the prestige of the house and its service to customers as a means of securing payment, without driving a debtor into a corner and handing him an ultimatum.

Another Wholesaler's Procedure

The credit manager for a well-known silk firm, dealing with a somewhat different class of trade, finds it advisable to follow his second reminder with a draft, notifying the customer that this will be handed to an attorney if not paid on presentation; but in practice a certain length of time is often allowed to elapse before the attorney is actually notified

to go ahead. "Suppose that when an account has run for a month and is not yet due, I receive information that makes it look hazardous. At once I stop further sale. The ordinary credit man, having decided that the account is bad, waits for his bill to mature hoping it will be paid. But I go straight up to the man and offer him an extra discount. 'Frankly,' I say, 'I have lost confidence in you.' If the man refuses this incentive to pay, I know he is 'busted,' and then I know what to do. I never encumber my mind with affairs of that sort—I get them through with as quickly as possible —but my methods of collection are as varied as my accounts; every case needs individual treatment." The same manager testifies that 98 to 99 per cent of all business men are honest in their intention. It is only when the business man's craft has drifted into currents beyond control, and insolvency threatens, that his instinct of self-preservation gets the upper hand.

The Regular Use of Drafts

A jobber in a different line carrying fifty thousand live accounts on terms of 2-10, net 60, invariably employs a draft following the monthly statement. The statement bears on its face a notice that the draft will be sent. The draft comes up in a tickler file in a week's time, and is sent to the bookkeeper, who issues a notice to the customer and ten days thereafter forwards the notice to the bank together with notice to the customer of the step that has been taken. If the draft is refused the credit man assumes charge of the negotiation at once. As an emergency plan in dealing with a customer who will not answer letters or telegrams, the credit man writes that he is willing to wait if the customer will accept the enclosed note, but he warns the debtor that if the note or a remittance does not come he will draw immediately and will follow unhesitatingly with suit.

A "Red Ink" Statement

A Middle Western jobber doing a large business with country merchants issues a statement when the bill is due on which are clearly printed the terms, net sixty days. Ten days later another statement is issued on which is printed a reminder, courteously phrased, assuming that no doubt the account has escaped the customer's attention. Ten days later another statement is issued on which is printed in red ink a courteous but urgent reminder asking why the bill has not been paid. The impersonal nature of the printed letter prevents it from giving offense, but the language employed and the color of the ink bring it strongly to the careless debtor's attention. When the account is thirty days overdue, the credit man writes a letter designed to get a reply.

Procedure of a Mail-Order House

A house doing business by mail and allowing examination of its goods sends an invoice with the goods and 15 days after a blue invoice with a sticker attached calling attention to its terms. After 30 days it sends a pink invoice, a duplicate of the preceding one, with a different sticker. Fifteen days later it sends out a statement with a simple letter containing an interesting sentence reselling the goods. Fifteen days later another letter follows with a statement; this one makes some specific appeal to pride, good-will, etc., with a hint that further measures will be taken. Following this in some instances, a "general manager" letter is sent offering leniency (see page 216) and giving the customer every opportunity to reply. This is very effective in securing an answer, oftentimes revealing some dissatisfaction with the merchandise which can be straightened out in diplomatic correspondence. By this time nearly all accounts have been cleared up. But as they are not charged off the books for ninety to one hundred and twenty days, the remaining

interval is utilized in communicating with the buyer's reference.

This letter goes direct to the reference given by the customer when he ordered the goods—who is frequently the customer's employer. He is informed that there is apparently some difficulty with the account, and is asked if he can supply information which will be of service. Needless to say, the letter is extremely courteous. This brings in forty per cent of the small number of accounts still outstanding—surely a notable success. But if no replies are received, the customer is warned that his account will be handed to an attorney. After another interval the attorney receives the papers designed to reach him on a date set in the letter to the customer. He waits three days; then proceeds to collect.

A Manufacturer's Procedure

The manufacturer of vacuum cleaners, whose "general manager" letter was quoted on page 216, before reaching this letter sends a series of five communications to the delinquent retailer.

The first letter asks definitely for a check and assumes an oversight.

Dear Sir:

Will you kindly let us have your check for $..... some time before the .....?

This account is now somewhat past due. We believe it must have escaped your attention and we hope you will let us have your remittance promptly.

Yours very truly,

The second letter assumes that the letter has not been received and appeals to pride.

Dear Sir:

Perhaps you did not get our recent letter calling your attention to your account of $..... If, for any reason, this is not due, will you please let us know. According to our records, payment is somewhat past due. We are sure that you are as desirous

of keeping all obligations up to date as ourselves, and will give the matter your immediate attention.

Let us thank you in advance for your reply, which we are confident will contain a check.

Yours very truly,

The third letter is a little more insistent and appeals to the desire of the debtor to avoid annoyance.

Dear Sir:

You must have overlooked answering our recent letter, regarding your account of $..... You do not wish to be annoyed, nor do we desire to be insistent, regarding payment.

Surely you will agree that we are, at least, entitled to a word from you, and if there is any reason why full payment cannot be made, or is not due, just let us know. As your machine was shipped from our factory on ....., we certainly are entitled to your prompt answer, and we believe to your check also, for which we will look.

Yours very truly,

At this stage the company decides to make a definite attempt to resell the goods, believing that it is now too late to rely primarily on the power of habit.

The fourth letter, consequently, appeals to self-interest, as well as to pride and the desire to avoid annoyance.

Dear Sir:

It was a pleasure for us to fill your good order for ..... cleaners. We knew you were buying something with which you would be more than pleased after each day of use, as we were glad to number you among our many satisfied customers.

It never occurred to us that we should be obliged to write you three letters, this being the fourth, regarding the payment of our invoice, amounting to $....., without receiving a reply from you.

We feel that this surely must have been overlooked in the rush of other business. If you mail your check today you will have it off your mind and we shall not have to bother you again.

Yours very truly,

The fifth letter relies on the appeal to pride involved in the assumption that a subordinate has been guilty of the

failure to pay and that his superior officer will correct the oversight.

Dear Sir:

On referring to our records, we find that we have written you no fewer than four letters, this being the fifth, in connection with your account with us to the amount of $.....

We believe that the matter has not been brought to the attention of the proper authorities in your company, and we would ask you to be good enough to give this bill final consideration at once. It seems impossible to believe that any firm would be so lax as to allow four letters to pass without reply, and we feel confident that this is caused by the failure on the part of some clerk to deliver the letters into proper hands.

The amount due, for which we enclose a statement, is $.....

Yours very truly,

The "general manager" letter and a letter bearing the letterhead of their own collection agency completes the series employed by this company before the account is sent to a local attorney.

Canadian Collection by Bank Draft

As is indicated above, the tendency of many houses in connection with drafts is to accompany them by a letter which makes the delinquent debtor feel the urgency of the step. In Canada, on the other hand, drafts carry no such implication. A New York manufacturer handles nearly all his Canadian collections by draft, sending the bank a multigraphed form which reads, "Accept our thanks for your prompt attention to the enclosed draft. Please make return *direct* to us in New York Exchange—your usual collection charge." A place is left for the name of the customer, his city and province, and amounts due.

Another form sent to the customer reads, "We are today drawing for our invoice dated..... through the ..... We hope this will be satisfactory to you. Please honor draft on presentation."

A third form is sent to the bank in case no reply is received by a certain date. "Our draft (or acceptance) has not according to our records been accepted. Will you please give it your early attention returning draft to us at once in case the customer will not honor."

Procedure of a Specialty Manufacturer

A firm of national reputation, located in New York City, manufactures a specialty article dealt in by a great variety of retailers. Accounts are small and are handled in large volume. The manager makes use of novel and varied phrases as a means of getting attention for his collection letters.

One of his letters appeals to pride and good-will in the following frank language:

Dear Sir:

Most collection letters have a tendency to preach promptness and its allied virtues. It's rather hard to get away from.

To be frank, we were racking our brains for some new way to put this idea across when it occurred to us you would respond to a straight-from-the-shoulder request for payment. So here it is.

Your account shows $..... due. Let us have your check by return mail and we'll be much obliged.

Very truly yours,

CREDIT & COLLECTION DEPARTMENT

Another letter "out-guesses" the customer by telling what is probably passing in his mind. It also makes an appeal to fair play and resells credit.

Dear Sir:

You have probably received our several letters with reference to your overdue account. That a reply has not been received has been undoubtedly due to an oversight or conditions over which you have had no control. Perhaps you have been waiting until you could make remittance of the entire amount.

Meanwhile we have been wondering just why payment has not been received. Put yourself in our place. If you had a customer

who persistently ignored your letters wouldn't you begin to consider taking some definite action which would uncover his reasons?

In view of our past liberality in the granting of this credit, business courtesy entitles us to a remittance or explanation by return mail.

Don't bother to write a letter. Attach your check to this letter and use the enclosed envelope.

Very truly yours,
CREDIT & COLLECTION DEPARTMENT

At the point where the account is to pass into the hands of the controller, the following appeal to fair play is used, coupled with a hint of severity.

Dear Sir:

At heart most men are fair and try to maintain a reputation for fair dealing.

We are willing to make allowance for unusual circumstances, but how are we to do that if we don't know them?

To afford every opportunity for our customers to place us in touch with their reasons for non-payment our controller has requested us to refer all delinquent accounts to him.

If we fail to hear from you in seven days your account will be referred to our controller.

Very truly yours,
CREDIT & COLLECTION DEPARTMENT

A different letter, which may be used at the same time as the preceding, begins by reselling the credit privilege.

Dear Sir:

When we shipped you the goods represented by your present account, we expressed our confidence in your willingness and your ability to pay for them on regular terms.

That you have not done so in spite of our reminders is a disappointment—particularly as we have had no information from you concerning the circumstances which make your present delinquency necessary. We are entitled to either a remittance or an explanation by return mail.

The controller has requested that all delinquent accounts be referred to him on ..... We hope you will make the necessary adjustment before that time.

Very truly yours,
[Signed by the firm.]

The next letter is from the controller and is an adaptation of the "general manager" letter so frequently referred to in this book.

Dear Sir:

The manager of our Credit and Collection Department this morning laid on my desk a dozen or so accounts which are long overdue and which he has attempted to collect by adopting liberal and lenient methods.

It being the practice of our house to extend every possible courtesy to our trade, our Collection Department is working under restriction, which prohibits taking drastic steps in the collection of a stray delinquent account. For that reason, these matters come to this office to be passed upon.

Now, however, I find that your attention has several times been called to a matter of $..... which has been standing on the books against your account longer than it should. Since our letters have not been successful in disposing of this item, I feel that we will be justified in refraining from further correspondence and in proceeding in the usual manner to collect your account.

This, I think, we ought to do unless we hear from you within the next week or ten days. Provided some word does not come from you in the meantime, I have instructed Mr. Ashe to proceed along these lines on .....

Very truly yours,
.....
CONTROLLER

The following is also a "controller" letter employing several interesting features. It begins with a story which shows how lenient the creditor is—and desires to be. It goes on to ask the debtor to classify himself and concludes by offering temporary leniency.

Dear Sir:

The other evening after dinner I dropped into a "movie" theater and saw a picture which to me was very interesting. It depicted the difference between a doctor who is guided wholly by scientific practice and one who is scientific—but also human.

I thought of that film when Mr. Ashe, our credit manager, brought in two or three accounts to me this morning—of which yours was one—saying that they were delinquent and he was ready

to proceed in the usual manner to collect them. There is a scientific and hard-and-fast way in which to collect such accounts. But we like to be human about these things.

Usually there are three reasons why an account is not paid when it is due. The man who owes the account happens to be short of cash, or he or his employees neglect it, or he intentionally lets it slide because by nature he is opposed to paying his bills when they ought to be paid.

The great majority of cases belong in the second class.

Many also belong in the first class, although just now most every dealer is well supplied with funds or should be. Certainly business has never been any better in the history of the country.

Only a very few belong in the third class and these we soon discover.

Doubtless you have overlooked the account we have standing on our books against you, although, frankly, it seems a little bit hard to understand why you should not have replied to our letters on the subject. Certainly there can be no excuse for neglecting the matter after you receive this letter.

I have, therefore, asked that the customary action on your account be withheld for another week, feeling sure that now that it has been called to your attention in this special way you will take care of it immediately.

Very truly yours,

.....

CONTROLLER

CHAPTER XXIII

WAR TIME COLLECTION PROCEDURE

Meeting Strenuous Conditions

Is it your problem to get an answer to your collection letters? Under the stress of war conditions, many customers are simply neglecting the usual communications from the credit and collection department of their manufacturers and wholesalers; believing that the plight into which difficult business conditions have flung them is so well understood that they will not be penalized for neglecting their business obligations.

The danger of such an attitude is twofold: it demoralizes credit conditions throughout the business world, and it destroys the morale of the dealers themselves, who, instead of putting up a stiff fight to maintain efficiency and pay their bills, grow slack in their efforts and blame "conditions" for the ruin they themselves might have prevented.

A Toronto firm, White Swan Spices and Cereals, Ltd., has tightened up on every point in its procedure to help in meeting the severe conditions existing in the Canadian field. A number of its form letters are reproduced on the following pages. They illustrate the systematic and resourceful attacks made by this firm upon its problems. Their language is fresh and unhackneyed and unfailingly courteous, but their earnest tone and their skilful use of appeals to fair play, pride, goodwill, self-interest, etc., cannot help but bring his obligations seriously to the mind of the man who reads them. It is fair to suppose that a firm which uses such methods as these will reap a better harvest than the one which merely exerts an

unreasoning pressure; it will get the money, retain good-will, and more important than either, prevent hopelessness and panic on the part of customers.

The First Letter

This communication manages to transform the usual request, "If you find goods satisfactory, please remit by return mail," into a sincere inquiry that brings a reply even if the merchant cannot at once pay in full.

Dear Sir:

If there is any cause for complaint with shipment covered by the enclosed statement of account amounting to $..... we would very much appreciate your writing us by return mail and affording us the opportunity of making immediate adjustment.

We never consider a sale complete until the customer is entirely satisfied, and if there is any fault in our service we consider it a favor to be told about it.

The account is somewhat overdue, and if it is entirely correct we would appreciate a remittance by return mail.

Yours truly,

The Second Letter

One way of getting a reply is to hold up orders. The letter issued in this case takes the apparently innocent stand that something must surely have been wrong with the preceding shipment, or payment would have been received; accordingly, the company is quite unwilling to ship another order until the former difficulty has been adjusted to the customer's satisfaction. The innocent subterfuge is doubtless transparent to the merchant who gets the letter, but it saves his pride and gives him a chance to remit promptly.

Dear Sir:

We have received your order through our Mr. ..... but as it is evident that there is something wrong with your account we are holding this up until we hear from you, the idea being that whatever the trouble is it may be possible to adjust it in this next shipment.

Is there anything wrong with your account? An overcharge—or a shortage? There must be some reason why you have been holding back payment for ..... purchases, and if you will be good enough to let us hear from you immediately in reply we can then adjust the account if there is anything wrong.

If this is just an oversight on your part please let us have a remittance for it according to the statement enclosed. The account will then be cleaned up and shipment can go forward without further notice.

Yours very truly,

Further Correspondence

If the account is so far overdue that the customer's delay can be attributed to his shortage of cash, the next letter makes it clear that the house appreciates this situation but in fairness desires that the extension be definitely arranged for.

The trade acceptance is not at this writing the general practice in Canada, but it is used to some extent. When one is dishonored a courteous letter assuming oversight is written, and a sight draft is issued. This company's methods of insuring attention to its drafts were explained on pages 213-215.

When Drafts Are Not Paid

The dishonoring of a second draft is made the occasion of the following letter:

Dear Sir:

If there is anything wrong with our invoice of ..... amounting to $..... we are anxious to hear of it and make immediate adjustment.

We wrote you some days ago in regard to this matter, and our second draft has been returned without any reason being given.

Please let us hear from you.

Yours very truly,

When Acceptance Is Not Accepted

If an acceptance is refused, another draft is immediately drawn; but if this too is dishonored, the situation is treated

in the same way as when an extension is desired. Since the customer in this case is not so good a credit risk, he is asked to meet a sight draft, and if this is not possible, to give his note for half of it.

Dear Sir:

Your acceptance for $..... which fell due on ..... has been returned to us dishonored.

This is the second acceptance which has been returned covering this account which is now considerably overdue, and you will appreciate the fact that some definite arrangement of settlement must be made at once.

We are anxious to assist you in any way reasonable, and if you are unable to pay the draft which we are now drawing, pay half of it at the bank and attach your note at 15 days for the balance.

We believe it is your desire to meet us fairly and thank you in anticipation for immediate attention to the matter.

Yours very truly,

Suggesting Resort to Law

The threat of an attorney following the dishonoring of draft is made the occasion, not of a harsh letter, but of an appeal to fairness and offers of leniency provided an arrangement is made.

Dear Sir:

We have drawn on you several times for the amount of our account but each time our draft has been returned without a satisfactory explanation.

It is our desire to act with entire fairness concerning your account and we are sorry you have not met us in the same spirit. In the ordinary course your account, being so much overdue, would be handed to our lawyer without further delay. We feel sure that in your case there must be some reason we do not know of, and if this is the case you ought in justice to yourself to write us by return mail.

As is our usual custom we have drawn on you several times for the amount of our account, which is now long past due. But, you have allowed these drafts to come back without a satisfactory explanation or a remittance. This matter cannot be neglected

longer. Unless we receive payment by the ..... we shall feel obliged to hand this matter over to our lawyer with instructions to collect by whatever means he considers necessary.

Yours very truly,

Another "Last Chance" Letter

Still another "last chance" letter is employed with customers whose conditions seem to warrant it.

Dear Sir:

Several letters have been mailed you concerning your account of $..... but you have not favored us with a reply.

Our records show $..... to be the correct amount of this account and as you have not disputed it, nor given us a reason for the non-payment, we are at a loss to understand the delay in receiving settlement.

There is nothing we dislike more than being forced to collect our accounts in an unpleasant manner. We hope you won't make this necessary.

Please remit by return mail.

Yours very truly,

Or a still milder letter may be used at this juncture.

Dear Sir:

We have endeavored to make it quite clear in the letters we have written you that it is our desire to act with entire fairness concerning your account of $..... as shown on the enclosed statement, and we are sorry you have not met us in the same spirit.

In the ordinary course your account, being much overdue, would have been handed to our lawyer without further delay. But we feel sure that in your case there must be some reason that we do not know of, and if this is so you ought in justice to yourself to write us by return mail.

Yours very truly,

The Ultimatum

The final step of draft followed by an attorney is announced in a letter which still shows the spirit of fairness and expresses regret at the necessary severity of the step.

Dear Sir:

We have endeavored by several means to arrange amicable settlement of your account which is long past due and regret that you have shown no inclination to settle in that manner.

We now enclose copy of draft which was today handed to our Bank for collection with instructions if not paid to hand to solicitors named therein who will proceed to collect with all possible dispatch.

In order to avoid further expenses and publicity it will be necessary for you to arrange immediate payment of this draft.

Yours truly,

CHAPTER XXIV

COLLECTION PROCEDURE—WHOLESALE HOUSE

A Wholesaler's Form-Letter Book

Handling an enormous number of comparatively small accounts and dealing with customers who order even several times a day, a certain wholesale house in New York City has prepared a book of form letters, a copy of which is in the possession of the credit manager and of the typist who handles this special correspondence. When provided with the index number of the letter desired and with the figures to be inserted, the typist rapidly prepares the letters each day for the credit manager's signature.

The best possible explanation of the system is given by a glance at the index of this book. As will be noted it covers such matters as the regular series to the delinquent customer, special letters on short-term goods, small bills, part payments, references, extensions, checks returned, discount, etc.

A	STRAIGHT REQUEST FOR MONEY
A–1	First letter after second statement.
A–2	Second letter after second statement.
A–3	Third letter, which intimates that we shall place the account with attorney if not paid.
B-1	First request on ..... bill—special short terms—to be followed by regular collection letters.
C–1	First request on unpaid bill for prepaid freight, to be followed by regular forms for small amounts.
D	SMALL BILLS
D–1	First request for payment of small bill after second statement.
D–2	Second request for payment of small bill after second statement.

E SMALL BALANCES
E–1 First request for payment of small balance after second statement.
E–2 Second request for payment of small balance after second statement.
E–3 Third request for payment of small balance after second statement.

F PAYMENT ON ACCOUNT
F–1 Extending thanks for previous payment already made on account, and asking for balance.
F–2 Acknowledging receipt of payment on account and letter, and expressing regret that his payment did not pay the entire account.
F–3 Acknowledging payment that has been made on account after an attorney letter has been sent.

G OUTSIDE AND REFERENCE FORMS
G–1 Request for information from the ..... Trade Protective Association, and request to be enclosed with our letter.
G–2 First letter written by Southern Association of Credit Men.
G–3 Second letter written by Southern Association of Credit Men.
G–4 First letter written by Northern Association of Credit Men.
G–5 Second letter written by Northern Association of Credit Men.
G–6 Letter written by ..... Mercantile Agencies.

H EXTENSIONS
H–1 Acknowledging payment on account and complying with the request for a specified extension on the balance.
H–2 Granting extension up to a specified time, suggesting postdated check.
H–2½ Granting extension up to a specified time, no mention of check.
H–3 Where customer says I will pay as soon as possible.

J PAYMENTS NOT MADE IN ACCORDANCE WITH EXTENSIONS GRANTED
J–1 To be used on date extension expires.
J–2 To be used five days or more after extension has expired.
J–3 Customer has not lived up to his agreement to pay weekly.

K CHECKS RETURNED UNPAID
K–1 First letter.
K–2 No fees.
K–3 Second letter.
K–4 Has made good on check, but has not sent the protest fees.
K–5 Check has been made good in full. Returning check to customer.
K–6 Check returned to customer not signed.
K–7 Check returned to customer, not made out properly, difference between body and figures.
K–8 Check returned for endorsement.
K–9 Check returned, intended for someone else.

L C. O. D.'s
L–1 We have received notice that draft has not been accepted.
L–2 Draft and bill of lading have been returned to us.

M EXCESSIVE DEDUCTIONS FOR DISCOUNT
M–1 Check returned for correction, deducts 2%, not entitled to any.
M–2 Check returned for correction, deducts 2%, entitled to 1%.
M–3 Check returned for correction, deducts 1%, not entitled to any.
M–4 Check accepted. Deducts 2%, not entitled to any.
M–5 Check accepted. Deducts 2%, entitled to 1%.
M–6 Check accepted. Deducts 1%, not entitled to any.
M–7 Check accepted, discount allowed. Deducts 2%, not entitled to any.
M–8 Check accepted, discount allowed. Deducts 2%, entitled to 1%.
M–9 Check accepted, discount allowed. Deducts 1%, not entitled to any.

O LETTERS TO CLAIM DEPARTMENT

P INSTRUCTIONS TO RECALL C. O. D. SHIPMENT, ENCLOSING ORIGINAL BILL OF LADING

Some of the foregoing letters, for instance A–1 and A–2 require constant revision and variety. Others such as A-3—which threatens an attorney—can be maintained without change as they are almost never sent to the same customer twice. In every instance, save one, the letters are individually

typed. The single exception is the first of the regular series, which is a courteous, multigraphed form, purposely given an impersonal quality.

Certain unusually interesting letters from the series are the following:

A-3. Third letter threatening legal action:

Dear Sir:

You have been reminded several times of your overdue account on our books amounting to $..... We have tried to point out to you in a very courteous manner the importance of settling this account, but for some reason unknown to us, you have failed to remit.

We aim to play fair and from all that I can gather from the records it appears we have been patient to a fault in waiting for your check. Now I must say to you very frankly and yet in all friendliness that this is the last letter that we shall write to you asking for payment of this account.

Of course, you know that there are methods of collection open to us, which although distasteful we shall not hesitate to adopt if necessary. I earnestly hope you will realize that it would be a serious matter for you to jeopardize your credit standing by further postponement of this settlement.

A copy of this letter will be held as a memorandum in my personal file until (6 days) which will give you ample time to get your check here. Let me urge you to send it off today.

Yours very truly,

C-1. First request on unpaid bill for prepaid freight:

Dear Sir:

It is indeed a great surprise to learn that the charge against you of $..... representing freight prepaid on shipment is still unpaid.

This amount was paid out by us in cash as an accommodation, and as there is no profit on that amount, such items are due immediately when presented as is specified on the bill sent to you.

You have always made payments in accordance with our terms, but we do not quite understand why you failed to pay this small balance.

Will you please be so kind as to let us know?

Yours very truly,

D-1. First request for payment of small bill:

Dear Sir:

Under date of ..... we sent you a second statement calling attention to a small bill which is now considerably past due. Not hearing from you we can only infer that our requests for a remittance have been overlooked, or that you have some reason for not paying this small bill.

In any event, we would like to hear from you, so as to avoid unnecessary correspondence, and the possibility of confusion later on.

Yours very truly,

D-2. Second request for payment of small bill:

Dear Sir:

Knowing that it is the custom for some merchants to hold over small bills and include the amount when paying others, we think it well to explain that with us, each and every transaction is separate and distinct. It is therefore a great convenience to us to have each bill paid as it matures.

Will you please be kind enough to send us a check by return mail for the bill of ..... amounting to $.....?

Yours very truly,

E-2. Second request for payment of small balance:

Dear Sir:

You will recollect that you have received several letters relating to a small overdue balance on your account of $.....

These letters must be more or less annoying to you, but as there appears to be no explanation of non-payment, it is the only means which we can employ to keep you reminded of the condition of the account.

Undoubtedly, you have some good reason for not paying this amount, and the purpose of this letter is to get some idea as to why you do not pay it.

Won't you please explain on the back of this letter?

Yours very truly,

E-3. Third request for payment of small balance:

Dear Sir:

In a recent letter we very courteously asked why you did not pay us a small balance of $.....

You must admit that we have given you every possible opportunity to dispose of this one way or the other, hence, in view of the fact that you have not done so, there is nothing to do but to consider the debt a legitimate one and conduct ourselves accordingly.

Please realize that it is not only expensive to be compelled to write one every so often on such a small matter as this, but it really grieves us that our efforts to adjust it apparently meet with so little sympathy and lack of co-operation.

Can we not rely on you to help us straighten this out?

Yours very truly,

F-1. Expressing thanks for payment on account and asking for balance:

Dear Sir:

An examination of your account shows that by your last payment you reduced the overdue balance to $.....

In expressing our appreciation of your efforts to dispose of this debt, we nevertheless feel that inasmuch as the account is so long overdue that you should take extraordinary steps to close it out.

We are genuinely interested in your success, and we sincerely hope that on receipt of this letter you will find it convenient to remit the difference mentioned and thereby prepare the way for even larger and more profitable business dealings between us.

Yours very truly,

F-3. Acknowledgment of payment after lawyer's letter:

Dear Sir:

I notice on referring to your account this morning that there still remains a balance of $....., although you did make payment of $....., after our attorney had written you in connection with the condition of your account.

Our lawyer now asks for instructions to proceed by suit, and I do not want to take that step, if it can be avoided. You must, however, understand that for the protection of our own interests, it is absolutely necessary that payments be made at maturity, and, failing to secure such payments through our own efforts, we are obliged to seek outside assistance.

Legal action means expense to you, but more important than this is the fact that the court records are always available to your other creditors, and action through the courts may result in the curtailment of your credit in other channels.

Take it all in all, this is a very serious matter to you, and I hope that you will prevent suit, by making full and complete payment of this difference by return mail.

Yours very truly,

G-1. Notifying of request for credit information:

Dear Sir:

You will notice from the attached blank that your name is the subject of inquiry in the trade here.

We give you this information in confidence, feeling that you should be given an opportunity to put your account in the proper shape so that we can consistently answer the inquiry and show the account to be in current condition.

May we not have the pleasure of receiving your check by return mail and the return of this blank?

Yours very truly,

K-3. Second letter on unpaid checks:

Dear Sir:

We have already written you regarding the check which was returned unpaid, and we expected immediate payment and some word as to how this happened. Neither has come to us.

It is harmful to let checks go back, and wrong to allow the amount to remain unpaid, but it becomes a serious matter when no explanation is made.

You owe it to yourself and your business to make good on this check and to explain fully.

We must insist upon hearing from you by the ....., (6 days after date of this letter).

Yours very truly,

L-2. On return of draft and bill of lading:

Dear Sir:

The draft covering our recent shipment valued at $..... has been returned to us attached to the B/L, as you did not accept it upon presentation. We are surprised to hear this, and would like to be informed as to your reasons so that we can make the necessary arrangement and avoid having the goods go to storage.

As far as we know, the shipment was made promptly and in

accordance with your instructions, and naturally we expect you to live up to your end of the agreement.

We would be pleased to hear from you, and suggest that you attach this letter to your answer, as that will bring it to the writer and avoid the possibility of a misunderstanding.

Yours very truly,

CHAPTER XXV

COLLECTION PROCEDURE—A FORM-LETTER SERIES

Using Multigraph Form Letters

The credit and collection department of a manufacturing corporation with branches, agencies, and dealers all over this continent, has in stock no fewer than fifty multigraphed form letters. Its policy in regard to their use is as interesting as the letters themselves. A selection from the letters is presented as a final exhibit on this subject. This policy is issued in the following memorandum:

1. Nothing can take the place of personal contact with customers.
2. Form letters should be used only until the customer will answer *something,* and thus give a basis for a dictated letter that will exactly fit his particular case.
3. No collection letter should be more than one page in length.
4. Form letters should be revised at least once in six months;
   (a) So that they will fit existing trade, money, and crop conditions.
   (b) So that customers won't get to know them by heart.
   (c) So that credit men will not use them mechanically.
5. Never argue with a customer.

In addition to the requirement that forms be frequently changed several forms are prepared to cover the same situation, to provide still further variety. For instance there are five first letters, five second letters, four third letters, four fourth letters, five fifth letters, and six attorney letters. In the case of some of these later letters, certain variations are due to differences in the situation. The utmost courtesy and fairness are shown in every letter.

An Appeal to Pride

One of these "second" letters makes an interesting appeal to the customer's pride by stating, "98% of our customers settle on receipt of a reminder."

Charges due December 15—$.....

Gentlemen:

We do not believe in dun letters. We find that, with 98 per cent of our customers, all that ever is required to secure a mutually satisfactory settlement is a mere reminder that an account has become past due. This is all that this letter is intended to be.

We have as yet no record of receiving your remittance to cover the charges listed above. It is our belief that you are just as anxious to clean up any past-due items that may stand against you as we are to have those items balanced.

Under the circumstances, therefore, we shall look forward to receiving at least a partial settlement from you within the next few days.

Yours very truly,

Disappointment at No Response

Another letter sent at this time is simpler and expresses disappointment.

June Account $.....

Gentlemen:

We are somewhat disappointed that our letter about this account sent you a few days ago has not met with a response.

We believe you will appreciate that the amount indicated above is unpaid and past due at this time, and we trust that there will be no delay on your part in forwarding a remittance.

Yours very truly,

Pressing for Payment

Examples of the letters sent third in the series are the two following:

Account $.....

Gentlemen:

We cannot find that we have heard from you in reply to either of our previous letters regarding this account. The amount which is now past due is listed above, and frankly, we think that it ought to be paid without further delay.

May we, therefore, depend upon your check reaching us within the next three or four days at the latest?

Yours very truly,

Account $.....

Gentlemen:

We do not wish to appear too insistent regarding this account, but at the same time we feel that you would hardly think well of our business methods if we allowed you to forget it.

The amount listed above is at this time distinctly past due. If our reports are correct, it remains unpaid. We feel certain that you value a clean record with this Company fully as much as we prize your good-will. As a step toward fostering an even better understanding, therefore, we must ask you to make some arrangement, without further delay, to meet this obligation.

You may be sure that your action in this direction will be appreciated.

Very truly yours,

Sending Sight Draft

When the account is thirty days overdue the company may give warning of a draft. One of the letters used for this purpose says, "It appears to be the custom with some

of our friends to settle bills only when sight drafts have been drawn upon them. Is this your preference? Ordinarily we do not take this to be the case but unless we hear from you by return mail we shall conclude it so. We shall draw upon you and shall expect you to be good enough to take care of our draft." This is followed after a due interval by a letter announcing the draft and a letter to the bank. A "punch" letter to the bank, following up the draft, is also included.

The "stage of urgency" is still more definitely indicated in the following letter which under different circumstances may be sent either in place of the draft or following it. Another similar letter begins with the sharp question: "Will you kindly favor us with a check by return mail in settlement of the above mentioned account?" These letters frequently call the customer himself to witness the fairness and leniency already shown, as in the sentence, "We believe you agree that our account ought now to receive your serious attention without further delay."

Account $.....

Gentlemen:

We have written you on more than one occasion regarding our account. The balance is the figure quoted above. It is considerably overdue. We have waited patiently on you and cannot understand why we should not have received a remittance by this time.

Now we request your immediate attention to the matter and we frankly ask that you make payment without further delay.

In making the request we do not believe that we are asking for anything more than that to which you will consider us fairly entitled.

Yours very truly,

In Sorrow Rather Than Anger

In an endeavor to "resell the house" to the delinquent, another letter recalls to him the pleasant relations which have existed.

June Account $.....

Gentlemen:

We are unwilling to assume that the above account is being neglected by you, or that you are intentionally putting off the date of payment.

Naturally, Mr. ....., (gentlemen), we have a high regard for yourself, (for your good company), and have greatly valued our business associations with you. Anything which would tend to interrupt even temporarily the pleasantness of that association would be a matter of sincere regret to us. We believe that the association is one which undoubtedly will result to our mutual profit, and we are very anxious to see the volume of business between us increased.

However, you do not expect us to be satisfied with the present condition of your account. You have delayed for a long time making payment of the amount due. We are frank to state that this condition is not altogether pleasing to us, and we do not think that it is any more pleasing to you. An unpaid past-due account is as apt to breed friction as any one thing that we know of, and we do not wish any friction whatever between our good customers and ourselves.

We have been doing our best to eliminate any possible cause of misunderstanding by carrying your account for a long time after it became due. Surely you do not expect us to continue to do so. The next move should be made by you.

We are, therefore, looking forward to finding a check attached to your next letter and we shall expect that letter within the next three or four days.

Yours very truly,

"The Turn of the Screw"

When it becomes necessary to refer the account to an attorney, the company provides a variety of letters, some long and some short. In each, a sincere regret is expressed at the interruption of pleasant relations. One letter says, "We feel that there is nothing at this time which we can add to our previous correspondence." Another resells the terms of the house, expresses perfect willingness to help a customer in a pinch, but points out the liberal extension already granted. Still another begins, "It is a matter of extreme regret to us that

our previous attempts made in the spirit of friendship and good-will to obtain payment of the balance due on our account have utterly failed." The following letter illustrates the step taken at this point; the third paragraph is optional for use with a previous delinquency.

June and July Account $.....

Gentlemen:

The balance of our (June & July) account due from you at the present time is $..... This matter has been placed before you on several occasions, but we do not seem to be able, through the medium of correspondence, to get any satisfaction from you in regard to these charges.

It seems equally useless to make drafts, and therefore we cannot see where there is any other course left to us but to take the usual measures to enforce collection of a past-due account.

(In this connection, we cannot help feeling that we are not receiving the treatment from you to which we are entitled as we find that we have on previous occasions had to suggest the possibility of having to place the account in the hands of our attorneys, before we could get settlement.)

We appreciate your business, and are anxious that the friendly relations, which have existed in the past should still continue between us. At the same time it is only right that we should mention that if settlement of this account is not made within the next few days, we shall have no alternative left but to ask our attorneys to take care of our interests in the matter.

We regret the necessity for sending you this message, and trust to your sense of fairness to set this matter right, and to forward a check to cover the items referred to without delay.

Yours very truly,

A Case of Unusual Importance

If a firm is in apparently good standing, a letter at this point begins with an expression of genuine surprise at the fact that no response has been received. "All the information at our command," the letter goes on, "would indicate that you are amply responsible in a financial way and that you are well able to meet your current obligations as they

mature. We have had every confidence in you and do not wish that confidence to be mistaken.

"It would certainly be strange to us if we had to resort to such an unusual and disagreeable course as to place an account against a firm with the standing of your good selves in the hands of attorneys for attention, and we are writing this letter, therefore, as a last endeavor on our part to prevent any such action if it is necessary."

This letter differs from all others in the series in extending slightly over one page—an indication of the unusual earnestness of the appeal to pride and fair play involved in this letter.

A Letter from the Branch Manager

In a case of unusual importance, the branch manager may be called upon to use his personal influence to obtain an amicable settlement. His belief that legal measures are unnecessary is expressed in the following letter:

June and July Account $.....

Gentlemen:

Our Credit Department has just referred to me for personal attention the charges which stand on our books against you. They have shown me the file of correspondence regarding this account. It seems that they have written quite a number of letters on the subject and of course you have been receiving statements at the beginning of each of the last several months, but so far we have not received the looked for response in the shape of a check.

It has been suggested that the matter be referred to our legal representatives for attention, but it occurred to me to write you a letter on the subject as I really do not anticipate that any such action on their part will be necessary. To the best of my knowledge and belief, the account is correctly rendered. I have not been made aware of any reason why payment should not be made. All the information we have at hand would indicate that you are amply responsible in a financial way and we have always understood that it is your custom to meet your obligations satisfactorily.

Won't you, therefore, do me the favor of responding to this letter promptly and, if the account is correctly rendered, send us a

check, and if there is any error, please tell us frankly about it so that we may investigate and if it is found to exist, correct it?

We have been anxious to give you good service in every possible way and naturally I feel that there should be no reason for our being forced to take extraordinary measures to collect an account from a customer whose business we value as we do yours.

Yours truly,

.....

BRANCH MANAGER

Avoiding Controversy Over Small Amount

Various other letters are provided for acknowledging payments made on account and asking, with more or less urgency, for the balance; for refusing extension and making various part payment arrangements; for returning a note as contrary to the company's policy, and suggesting a different arrangement; and for handling various problems arising in connection with the cash discount. For example, the company in a courteous letter of some length explains its inability to allow discounts taken in the second month, on bills rendered in the last few days of the month. A somewhat more severe letter to a customer who has taken the discount when his payment was thirty days overdue, explains that the reason for the discount is to secure prompt payment, and the company cannot allow both time and discount of the payment.

The close personal connection between the branch manager and the customer is taken advantage of when it is decided to allow a wrongful discount rather than create friction; or when the home office has determined to charge off a small item which it has been unable to collect.

Gentlemen:

Our Credit Department have brought to my attention the charge against you dated June 15 amounting to $2.63.

I am frank to state that I cannot understand why you do not pay it as it seems to me that it is a correct charge and one which ought, in the regular course of business, to be settled by you. At

the same time, we do not wish to get into a controversy with you over an item of $2.63.

We value your business and—more even than your business—your good-will. Rather, therefore, than allow the possibility of a misunderstanding over such a small item to interfere with our good relations in the future, we shall recommend our home office to charge off this item of $2.63, in the hope that in the future you will settle our charges as rendered so that no similar opportunity for a misunderstanding will exist.

Yours very truly,

.....

BRANCH MANAGER

CHAPTER XXVI

TRADE ACCEPTANCES

The Object of the Trade Acceptance

Many a business man has determined to use trade acceptances in his collection procedure. He does so for the same reason that has led him to offer a discount for prompt payment; that is, in order to set his capital free for use in his own business instead of allowing it to remain in the hands of his customer during the usual credit period. The seller on receiving the acceptance usually discounts it at the bank and gets his money at once. The buyer, when the acceptance becomes due, pays the bank instead of the seller; if unable to pay at maturity he secures an extension and gives his note.

Because this operation increases the amount of capital available for business in the country, it is being urged as an emergency measure in which all merchants should co-operate so far as possible during the period of the war. It has great value also as a permanent reform in curing a great deal of looseness in credit-granting and of carelessness in payment. Moreover, it transfers the credit burden from the back of the seller to that of the buyer where it logically belongs.

There is nothing essentially new in the trade acceptance method. It is common in Europe and has been used to some extent here.

The campaign for its use is essentially a campaign to increase the amount of money in the United States during war time and to reform the abuses of the open-book-account system, by popularizing an alternative system. The nature of the plan is taken up more fully at the end of this chapter.

Selling the Acceptance Idea

Since it presents so many obvious advantages especially in collection from customers who have ordered small bills of goods or upon whom for other reasons the credit hold is not strong, credit managers are enthusiastically advocating its use. Many houses wisely refrain from offering too much explanation by mail but simply request that it be used, sometimes also sending a pamphlet dealing with the subject. The buyer who uses the acceptance recognizes the fact that he will pay within the credit period in any case—which is true of the great majority of commercial transactions—and he is willing to sign the acceptance as an accommodation to the seller and for motives of patriotism. He recognizes also that this method makes him more careful of his obligations and tends to prevent overbuying, the rock on which so many merchants split.

Acceptances broaden the buying field of the merchant. By means of a letter of credit from his bank to the effect that, under certain conditions and up to a certain agreed figure, it will accept all bills drawn for his account, he is able to make his purchases advantageously, even in markets where he is unknown. The system is thus to the advantage of the merchant who wishes to buy in new markets.

Some companies find it advantageous to offer a discount for the use of the acceptance. The form shown on page 268 is used by the Scott Paper Company of Philadelphia. It shows the merchant in parallel columns the advantages which, under the terms established by the company result from discounting in the usual way or signing the trade acceptance. This statement has superlative clarity and simplicity and throws the trade acceptance method into great prominence. Indeed it practically "forces the card" upon the customer, though he apparently has free choice among the three methods presented.

Before you decide how you will settle the accompanying account may we request you to consider the three methods by which purchases of Scottissue products may be settled.

NO. 1	NO. 2	NO. 3
Discounting less 2% 10 days from date of shipment.	Completing and returning the Trade Acceptance or Negotiable Receipt attached.	Making payment net, 30 days from date of shipment.
RESULT	RESULT	RESULT
A saving to you of 2% in return for the investment of your capital in goods which you have yet to sell.	A saving of 1% in cost, and 60 days' time during which you may use the receipts coming in from the sale of the goods before you will be called upon to make any investment in them. The strengthening of your credit standing by advertising your promptness in meeting obligations.	Necessitates paying full price for goods which might be purchased for 99% of list price. Parting with full cost within 30 days when by co-operation and taking advantage of up-to-date methods 60 days' time might be legitimately taken.

It is evident that methods No. 1 and No. 2 lead to profitable results while method No. 3 is unprofitable to purchaser and seller alike. Purchasing on an open-account basis is rapidly becoming to be looked upon as unprofitable, inefficient and therefore obsolete. Give Trade Acceptances on Discount.

TRADE ACCEPTANCE

$_____ PHILADELPHIA, PA._____ 19__

____DAYS AFTER DATE PAY TO THE ORDER OF SCOTT PAPER CO.

_____DOLLARS.

THE OBLIGATION OF THE ACCEPTOR HEREOF ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER

IN SETTLEMENT OF OUR INVOICE OF_____

TO_____ Scott Paper Company

_____ BY

ACCEPTED _____ 19__

PAYABLE AT _____ (PRESENT DATE)

(DESIGNATE BANK AND CITY)

(SIGNATURE OF ACCEPTOR)

A "deadly parallel" that "sells" the trade acceptance.

The credit manager of the company, E. S. Wagner, writes as follows concerning his propaganda for the trade acceptance:

The acceptance form itself and the circular entitled "How Authorities View Its Promotion to Trade Usage" are mailed with original invoices going to customers who do not avail themselves of the 2% discount we allow for a 10-day settlement. In the case of an invoice going to a customer who has never purchased before, we also send our little booklet along with the trade acceptance and the circular.

If the customer does not complete and return our Trade Acceptance, nor take advantage of our cash discount terms, but instead remits net in 30 days, we send him, with the receipt for the

cash settlement, a little yellow card, which tends to show how inefficient it is to purchase on net cash terms. This yellow card, therefore, completes a series of trade acceptance propaganda which started when our salesmen demonstrated that "Trade Acceptances permit of practically cash discount terms, on an extended settlement." This was followed up and the customer received executed trade acceptance and circular with original invoice, and when these two suggestions failed to sell him, and he lost not only the 1% discount but the 30 days besides, we made that fact known to him through the little yellow reminder.

Believing that it is a poor rule that will not work both ways, we retire as many of our own purchases as possible on trade acceptance terms and feel that if such a policy were practiced by the larger manufacturing and jobbing houses, the solution of the problem of introducing trade acceptances generally, would be somewhat hastened.

SCOTTISSUE PRODUCTS ARE CHEAPER

if purchased on acceptance terms instead of open account.

Had you accepted the draft sent you with original invoice of $ ___/100 this purchase would have cost you but $ ___/100 a saving of $ ___/100, and you would have had until _____191___ to make settlement into the bargain.

In other words you can carry Scott Products without investing a $ $ $ of your capital providing you can turn a jobber quantity of our goods in 60 days.

NEXT TIME WHY NOT SETTLE VIA THE TRADE ACCEPTANCE.

IT WILL PAY YOU AND PROVE CONVENIENT.

The form that completes the propaganda for trade acceptances. Sent with receipt for cash settlement.

Retail Use of Trade Acceptances

In certain localities retail merchants have not hesitated to employ trade acceptances to close their books at the end of the month, urging them, of course, only upon customers

who have been slow pay. The emergency situation in the country and the difficulty of retailers in doing a satisfactory business, being well known to many retail customers, has made this more possible than under previous conditions. The retailer is in a position to say to his customer, "Of course you would pay your bill before this acceptance became due anyhow, so it will be no hardship to you. If people will agree to pay me in this fashion, I can get my money earlier from the bank and pay the wholesalers from whom I buy. A good many of them are demanding trade acceptances of me, and so I am asking the co-operation of my customers."

Its installation in the city of Joliet, Illinois, is explained as follows in information supplied by George Woodruff, president of the First National Bank of Joliet, and chairman of the Committee on Trade Acceptances of the Chamber of Commerce of the United States, and given in a letter by E. H. Krueger, secretary of the Association of Commerce:

The bankers of Joliet recently agreed that it would be a very great advantage to them if our retail credit situation was put in the strongest possible position because our merchants were extending considerable lines of credit to the masses of people and with the possibility of some business reverses after the war there was the probability that some of our local people might find themselves out of work or in other ways somewhat hard up for ready money. When these conditions have occurred in the past, our people have been unable to pay their accounts to our merchants, and many of them have consequently become very slow in making payments while others have moved away, or refused to pay up their old accounts.

This condition has in the past embarrassed our merchants and resulted in the failure of some of them, and of course the banks have consequently suffered losses. This whole situation is of course against the interests of the banks, and also against the interests of the whole community. The bankers agreed that the adoption of the trade acceptance system by our local merchants in place of the present open-book-account system would largely eliminate the most dangerous features of our local credit situation.

At a meeting of our merchants, all of our bankers attended and suggested that when a statement was sent to a charge customer at

the end of the month a trade acceptance made out for 30 days' time should be enclosed and the customer should be requested to either make payment of the account within 5 days, or else sign and return the trade acceptance.

This change does not disturb any of the business customs in use; a merchant is able to accept partial payments on the trade acceptance and if his customer is unable to pay at the end of 30 days the merchant may renew the account by taking a promissory note bearing interest. He should never take a trade acceptance for a renewal. By taking a promissory note he is able to charge a fair rate of interest, while under the present plan he is never able to get any interest on his money, which is tied up in overdue accounts.

Furthermore, the merchant will largely eliminate slow accounts by the trade acceptance system because he will doubtless discount the trade acceptance with his bank, and his local customer will receive a notice from the bank to meet the trade acceptance when due and the local customer usually pays the banker with a considerable degree of promptness while he might be inclined to be slow with the merchant. Then, too, the merchant has an opportunity to guard against extending too much credit to weak people, because when he discounts the trade acceptances at the bank, the banker checks them over carefully and may perhaps reject the acceptances of people who are not honest or financially responsible for the amount involved. This is notice to the merchant to watch this particular account and not overextend credit.

The trade acceptance will prevent the average consumer from overbuying as he will realize that it is necessary for him to pay the trade acceptances promptly, and he will consequently not be inclined to buy four or five times as much goods as he can hope to pay for within a reasonable length of time. This will do away to a considerable extent with mail-order competition as the customer of the average retail merchant usually uses his ready money to buy goods through the mail, and allows the merchant to carry the accounts past due. As a matter of fact, the retail merchant is really the man who now finances the purchases from the mail-order house.

The merchant is also better able to obtain money from his banker with trade acceptances because a banker usually only loans a merchant 50 per cent of his accounts receivable, while the average banker will be glad to take 100 per cent of his trade acceptances. Then, too, the Federal Reserve Banks grant a rate of interest on the rediscount of trade acceptances of one-half of 1 per cent lower than on single-name paper and consequently our banks in Joliet pass this saving on to the merchant and charge him one-half of 1 per cent less interest on trade acceptances than on straight notes.

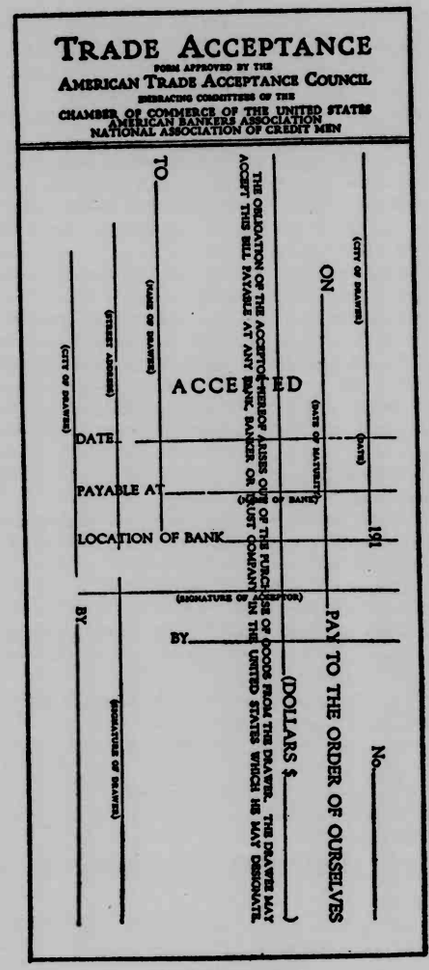
Most of the bankers endorse the trade acceptances and turn them over to the Federal Reserve Bank at 4 per cent or 4½ per cent, in that way making a good profit for the bank without tying up any of its funds and also saving the merchant one-half of 1 per cent in his interest.

In some small communities where the capital and surplus of the local bank is small, the local merchants have been hampered by the rule which prohibits banks from loaning more than 10 per cent of their capital and surplus to any one firm. Trade acceptances may be received by a bank from one firm without regard to this 10 per cent rule because it does not apply to trade acceptances. Of course, our bankers feel that this system will not only put the credit situation of the city on a much sounder basis to encounter whatever business conditions may be in store for them after the war, but from their own standpoint they feel that they have much safer risks as the paper bears two names and will undoubtedly be paid more promptly and regularly than are the old-fashioned single-name notes. In Joliet, our merchants are perfecting their forms and will expect to put the system into actual operation within the next few weeks.

The Acceptance Explained in Detail

Fuller explanation of the various points connected with trade acceptance is set forth in the following questions and answers reprinted by permission from a pamphlet published by the Irving National Bank of New York City, entitled, "Practical Questions and Answers on the Trade Acceptance Method."

1. *What is a trade acceptance?*
   A negotiable certificate of indebtedness arising out of a current transaction in merchandise.
2. *In what form may the trade acceptance be issued?*
   See facsimile of trade acceptance form on page 273.
3. *Give the ordinary distinction between a trade acceptance and a draft.*
   The trade acceptance is confined to credit obligations arising from the sale of goods, and must have a definite maturity. The draft may cover various kinds of transactions, may be payable on demand, at sight, or at the end of a stated time.
4. *Give the ordinary distinction between a trade acceptance and a promissory note.*


TRADE ACCEPTANCE
FORM APPROVED BY THE
AMERICAN TRADE ACCEPTANCE COUNCIL
EMBRACING COMMITTEES OF THE
CHAMBER OF COMMERCE OF THE UNITED STATES
AMERICAN BANKERS ASSOCIATION
NATIONAL ASSOCIATION OF CREDIT MEN
TO
(NAME OF DRAWEE)
(STREET ADDRESS)
(CITY OF DRAWEE)
ACCEPTED
THE OBLIGATION OF THE ACCEPTOR HEREOF ARISES OUT OF THE PURCHASE OF GOODS FROM THE DRAWER. THE DRAWER MAY ACCEPT THIS BILL PAYABLE AT ANY BANK, BANKER OR TRUST COMPANY IN THE UNITED STATES WHICH HE MAY DESIGNATE.
ON
(CITY OF DRAWEE)
(DATE)
(DATE OF MATURITY)
DATE
PAYABLE AT
(NAME OF BANK)
LOCATION OF BANK
191
(SIGNATURE OF ACCEPTOR)
BY
BY
(SIGNATURE OF DRAWER)
PAY TO THE ORDER OF OURSELVES
(DOLLARS $
No.

Trade Acceptance

The trade acceptance is limited to obligations arising from the sale of goods. The promissory note may cover practically any kind of obligation. . . . .

14. *What is the purpose of the trade acceptance?*
To express a credit obligation arising from the sale of goods. . . . .

16. *Describe the business practice involved in a merchandise transaction in which the trade acceptance is used.*
(a) A definite bargain is consummated between the seller and the buyer of goods, and an amount due with a definite term agreed upon.
(b) The seller draws the acceptance and presents it to the buyer.
(c) If the buyer is willing to assume:
That title to the goods has passed to him,
That the trade acceptance is in proper form, and
That the conditions of sale have been complied with,
he accepts by writing across the face of the instrument, the word "Accepted," the date, and place of payment, and his name, and returns it to the seller, or to the bank presenting it.
(d) The seller either:
Holds it until maturity, or
Arranges to have it negotiated. This process may bring the acceptor, the bank, the note broker and the federal reserve bank into the transaction.
(e) The acceptor either:
Pays it at maturity, or
Secures an extension of time. This is accomplished by treating it as a past-due obligation and covering it by a promissory note.

17. *How may a seller introduce the trade acceptance method?*
(a) By making it a condition of sale.
(b) By writing an explanatory letter, following it up by a trade acceptance.
(c) By writing a short explanatory note of a few lines on a perforated section above or below the acceptance, explaining its operation.

18. *Why should a concern which takes acceptances also give acceptances?*
Because:
(a) The acceptance method is desirable from the standpoint of both seller and buyer.
(b) The fact that a concern gives acceptances serves as an excellent argument to induce customers to employ the same method. . . . .

24. *Give some advantages the buyer derives from the trade acceptance method.*
(a) Develops careful buying.
(b) Enables him to keep better track of his outstanding obligations, thereby avoiding the evils of overextension.
(c) Strengthens his credit and puts him in the position of a preferred buyer.
(d) Develops in him the habit of prompt payment and furnishes him with an excellent excuse for requiring prompt payment from his customers.
(e) Enables him to realize that credit is as tangible as cash and should be guarded and used accordingly.
(f) Eliminates wastage and lost motion attending the open-book-account method.
(g) Is good business because it releases business capital for new transactions.
(h) Improves the chances of the buyer of small means to operate in successful competition with the large buyer.
(i) Helps the buyer by making him deal always in current transactions rather than in long-drawn-out book accounts.
(j) As the buyer often becomes a seller, the same advantages that apply to the seller apply to him.
(k) Serves as a tonic to the business organizations concerned.
(l) Prevents the accumulation of overdue accounts.
(m) Develops a sounder and more serious attitude toward buyer's own obligations.

25. *Give some advantages the seller derives from the trade acceptance method.*
(a) Relieves him from the burden of financing his customers and the consequent burdening of his own capital.
(b) Enables him to conduct business on a more systematic basis, with a more regular income schedule.
(c) Puts the burden of proving correctness of the details of the merchandise transaction where it belongs—upon the buyer.

26. *Does the buyer in accepting waive any of the legal rights against the seller which he would enjoy under the open-book-account method?*
No, but if after accepting he pleads incorrect deliveries, he must prove his case.

27. *Give some additional advantages the seller derives from the trade acceptance method.*
(a) Provides a liquid asset.

(b) Reduces the expense of collections and simplifies the process, by making it a detail in banking machinery.
(c) Promotes the economical treatment of merchandise and enables the seller to do business at a smaller operating cost.
(d) Relieves him from the necessity of selling his accounts at the high rate of interest usually exacted.
(e) Enables him to offer the bank additional security.
(f) Strengthens seller's financial statement, by showing the character of his accounts.
(g) Enables the seller to gage more accurately the commercial standing of the buyer.
(h) Tends to confine borrowing to funds actually needed.
(i) Seller inoffensively assists the buyer to complete his contract in the way in which he originally intended to complete it.
(j) Enables seller to more accurately calculate his collections for stated periods.
(k) Enables seller to facilitate his customer's business by the extension of credit and by deliveries in a way not always possible under the open-account system.
(l) Gives seller two-named paper to present to his bank for discount.
(m) Enables seller effectively to dispose of the possible necessity of subsequent proof of the legal status of the transaction and to exhibit for inspection the highest possible class of book accounts. . . . .

29. *Give some advantages general business derives from the trade acceptance method.*
(a) Provides a check against carelessness and extravagance by reminding the debtor constantly that his credit may be put to the test.
(b) Enables invested capital to do considerably more than its present volume of work with less risk.
(c) Lowers borrowing rates, because of the production of standard paper, because of the elimination of unnecessary risk, and because the Federal Reserve Board offers preferential rediscount rates for this class of paper.
(d) Makes capital more fluid by releasing funds now tied up in open-book accounts and by substituting readily negotiable commercial paper for non-negotiable book accounts.
(e) Improves trade relations between buyer and seller by clearly defining their respective obligations. . . . .

31. *Name the chief objections to the open-book-account method.*
(a) Provides an easy method for the abuse of credit by buyers who allow their accounts to remain unpaid for unreasonable periods, without payment of interest.
(b) Time of actual payment indefinite, as both parties have become accustomed to the abuse of the extension privilege.
(c) Not "liquid" assets and therefore not a good basis for credit.
(d) Creates the possibility of carrying sales argument into credit period.
(e) Unnecessarily ties up an unreasonable portion of the merchandise value involved.
(f) Ties up seller's capital without a stated compensation to him.
(g) Costly in collections, extensions, trade discounts, and abuse of sales terms.
(h) Unnecessarily forces seller to perform a banking function for the buyer.
(i) Tends to raise prices, this being the only way in which the seller can protect himself against the burdens forced upon him. . . . .

33. *What evils, then, in our present commercial methods would the trade acceptance curtail?*
(a) Practice of taking unearned and unauthorized discounts.
(b) Losses by bad debts and the evils attending the carrying of overdue accounts.
(c) The secret assignment of book accounts.
(d) Practice of cancelling orders and returning goods without sufficient reasons.
(e) Overbuying and overselling.

34. *Does the trade acceptance eliminate the promissory note?*
No, the promissory note deals with all kinds of business transactions—the trade acceptance with current merchandise transactions alone. The trade acceptance is not to be given for borrowed money, or past-due obligations. . . . .

36. *Will the trade acceptance curtail the extension of credit?*
No, it does not change the term of the credit—simply carries the credit in better form.

37. *Will the acceptance hurt credit?*
No, the merchant whose statements show Acceptances Payable and Acceptances Receivable should be entitled to a higher rating than one whose statements show Accounts Payable and Accounts Receivable.

38. *Why is this true?*
Because:
(a) The merchant who *brings his transactions out into the open and serves notice upon the business world that he is willing*

to meet his obligations at maturity is a better business risk and hence entitled to better treatment than one who has his accounts carried upon an indefinite and unbusinesslike arrangement such as the open-book account.

(b) Willingness to use the acceptance method shows that a business man wishes to conduct his affairs upon a strictly business basis. Public knowledge of this fact is sure to find favorable reflection in his business standing.

In order to present both sides of the question of trade acceptances, some sections are taken from a letter written by the assistant treasurer of the B. F. Goodrich Company, showing why the trade acceptance is not adaptable for use by his company. The very large discount of 5 per cent offered in this instance, together with other factors, led this company to its decision. This statement should not be construed as opposing the use of trade acceptances; it merely explains certain limitations in their use. Anyone who reads the last paragraph can determine for himself whether trade acceptances would be serviceable in his business.

As you know, we are definitely committed to the granting of an unusually large cash discount. Our 5 per cent cash discount, which is a part of our terms for all branches of our line, is equaled only by the cash discount granted on a few special lines in the garment field. You are familiar with the reasons for the granting of this unusually large cash discount. Since we are dealing largely with merchants of limited capital, we do everything that we can to make a man turn his capital often.

The primary purpose of the trade acceptance movement is to expand the credit structure of the nation. Of course this expansion does not in any way increase the actual amount of wealth. What we strive to do with our long cash discount is to make a man turn his capital frequently and it follows that every time that he turns his capital and makes a profit it is producing wealth.

From the standpoint of the national interest in the present emergency, it has been held by a dozen or more of the country's largest bankers, to whom our particular problem has been submitted in detail, that we serve the country better by making our customers' dollars work overtime than we would by deferring payments and lengthening terms, in accordance with the trade acceptance plan.

Looking at this question from a standpoint solely of the interests of the Goodrich Company, there are several things to be considered: First of all, the acceptance plan has been devised to assist the man whose results in handling open accounts have been just average, or less than average. It so happens that our results, over a period of years, have been very much better than the average. Our accounts receivable are not uncertain; our losses are negligible; our cash discount terms are enforced in all of our dealings with all of our customers. If we are to put into operation a system, which is planned to bring up the man who has been getting poor results to a level where he can expect average returns, we actually will have to bring ourselves down to a lower level than that upon which we have been doing business. This is just a matter of mathematics. We are not taking credit to ourselves, because our collection results have been exceptionally good (we know that they can be better), but we do not care to lose any of our "punch" merely because a lot of other fellows have slow accounts and cannot enforce cash discount terms.

If we were to make a general use of trade acceptances, we probably could discount those acceptances and in this way borrow money at a figure slightly under the current market rate for single name paper. At the same time, if we did this we would be merely borrowing money on the name of the B. F. Goodrich Company, so far as most of the acceptances might be concerned, because we have very few customers whose names on the pieces of commercial paper would mean anything as a basis for borrowing from our banks in New York, Philadelphia, Boston, or Chicago.

Furthermore, it would be necessary to create a special department to handle these acceptances. The maintenance of such a department would represent a considerable item of expense. It would also be necessary to set up and to keep up a reserve to pay discounted acceptances which our customers did not meet when they came due. The interest on this reserve alone would more than eat up the slight saving in the cost of borrowed money secured on acceptances.

It must be borne in mind also, that if we were to use acceptances regularly throughout the year, we would face a necessary lengthening of our terms. We could not profitably arrange to discount and rediscount customers' paper which would run for less than 60 days. This would react directly upon the Credit Department, because, instead of being in a position to shut off upon a man when he did not take advantage of his cash discount for a single month's purchases, our cash discount would be eliminated and we would have no excuse for shutting off deliveries until a man failed to meet his first acceptance at the end of 60, or possibly even 90 days.

The credit men also would face the problem of handling customers who would give acceptances, sincerely believing that these acceptances represented cash and actually paid their accounts. For example, a dealer, with a credit limit of $5,000 would order $5,000 worth of goods from us, under the dating proposition, in January and would give us an acceptance for $5,000 when the goods were delivered. It would be a very difficult thing for us to convince that dealer that by giving us his name on a piece of paper he had not actually paid his bill. If he were to give us an acceptance, it would be nothing more than natural for him to expect to come right in to order and receive another $5,000 worth of goods on open account. Of course the acceptance would merely serve as a basis for borrowing and the transaction would produce no money except such money as the B. F. Goodrich Company would borrow and pay for. The customer's account would not be settled until the acceptance cleared at his bank on the date due. If, after taking his $5,000 acceptance we were to give him another $5,000 worth of goods on open account, we merely would be doubling his limit without any sort of security.

From the standpoint of the B. F. Goodrich Company alone, therefore, the use of the trade acceptance would involve additional operating detail and additional expense, with an actual slowing up of our collection methods and an increase in risks.

From the standpoint of the salesmen in the field, the trade acceptance is a mean thing to handle, because at the time he takes the order the salesman is compelling the buyer to think definitely and specifically about paying the bill. The chances are if an order is taken for a thousand dollars and then the salesman asks the customer to sign an acceptance for a thousand dollars, that in many cases the customer will wish to be on the safe side of things and will actually cut down the amount of the order placed with us. Further, if we are to place upon the salesman in the field the burden of explaining a trade acceptance plan to customers, we are going to make it necessary for him to spend a good part of his time selling this part of the program to customers—the time which might otherwise be devoted directly to producing orders.

When the proposition is viewed from the standpoint of the customer, there is just one question to be asked and answered. Why should any customer who has regularly discounted his bills, give to the B. F. Goodrich Company a trade acceptance, unless conditions have so changed that we actually need that customer's assistance in financing his tire purchases through a dating period? When we ask the customer for an acceptance, we give him nothing in return for it—it is just an additional consideration that he is

showing us. If we are dealing with customers who live up to the contracts that they make and if we see to it that they do live up to these contracts, the acceptance would give to the customer nothing that he does not already have, and, as many customers will persist in viewing it, would be merely requiring the customer to give some form of "security" as a guarantee that he will pay his bills when he says he will. If a customer always has maintained a clean discount record with us it would be a little bit hard for him to figure out why we should require, at the present time from him, more than we have in the past.

We believe that the trade acceptance is an excellent thing for the concern of limited capital doing business with established corporations, whose names on acceptances will be a direct addition to the borrowing power of the people to whom the acceptances are given. We believe in acceptances for houses selling goods on very long terms to customers who are not in the habit of paying promptly, also for houses that have found open accounts to be "a very uncertain thing" and for those houses who experience great difficulty in enforcing cash discount terms.

CHAPTER XXVII

CONSTRUCTIVE CREDIT WORK

Insolvency, Insincerity, or Instalments

Many executives have adopted constructive credits because the system gives them a rational alternative to bankruptcy in dealing with certain cases. Worthless promises they do not consider a rational alternative. What ground have they for believing that a hard-pressed merchant who has long been slow pay, and who has even failed to live up to an arrangement for part payments, will suddenly manage to reform? The tide of his fortune may turn of its own accord, but these executives prefer to lend it a helping hand. They are reluctant to offer instalment payments, but they prefer this to bankruptcy and the probable loss of what is due them; while they are equally averse to accepting promises to pay the full amount by a certain date, when they know these hopeful anticipations are "writ in water." When offered the alternatives of "insolvency, insincerity, or instalments," they choose the least of these evils.

This chapter is especially concerned with the newest development of constructive credit work, the traveling representative who gets on the ground, analyzes the customer's troubles, and helps him out of them by "efficiency suggestions."

"But," object some credit men, "if a merchant is going to fail anyway, better press him hard and get your money, even if it does send him to the wall a little sooner." That this course is sometimes necessary, no one will doubt. "But why be so certain," say others, "that failure is inevitable? The

man certainly will drown if you pull away the plank; but possibly if you throw him a life-preserver, he may struggle to shore. Looked at only from the cold-blooded point of view, a merchant saved through your efforts is a good friend thereafter. Bankrupts order no goods."

The policy of offering helpful advice to customers whose accounts are past due, as well as allowing the usual extensions of time, is no mere theory, but in various forms is actively used by many houses, and has stood the acid test. Those who use it most will tell you many stories of disappointment, of men who could not or would not be saved; but they tell you also of men who have been put on their feet in a financial crisis, or have been brought to right practices by a bit of earnest advice, and have become prosperous merchants.

Ambassadors of the Diplomacy of Business

A friendly salesman in his shirt-sleeves, working energetically after hours to sweep up a customer's floor or to fix a window display for the big sale tomorrow, is a practical demonstrator of the good-will of his house. He can put ginger into the merchant who was ready to give up without another struggle. "I always do some real physical work for the fellow whom the house has sent me out to see, with the order to 'find out what is the matter with Brown and try if you can't get him to send us some money.' Brown's discouragement affects him like the palsy, and the sight of somebody stirring around gets him into action, warms up his blood, and gives him some hope of life." So spoke a salesman, who would be surprised if you called him an ambassador of the diplomacy of business, but who has earned that title by the success with which he aids the diplomatic credit man in the home office to secure payments on doubtful accounts.

After analyzing many of their most troublesome accounts,

some houses have decided that a lack of knowledge of business is one of the most frequent causes of failure to pay. The customer does not lack good intentions, but he either does not know the source of his weakness, or he does not feel it strongly enough to be willing to reform. Frequently a word spoken in season, particularly if it comes from the man who checks his orders for shipment, and at a time when the customer is asking some favor, will do a world of good. Sometimes a series of suggestions extended over a period of years is necessary in order to root out established bad habits. What is most needed? That depends. Perhaps it is education in the principles of credit, carried on in letter after letter; perhaps it is an accounting system that will show the merchant where he stands; perhaps it is conservative buying; perhaps it is better collection methods; perhaps the merchant has been trying to run a real estate business and a shoe business at the same time, and needs to get rid of one or the other.

Helping the Customer to Help Himself

The story of the experience of one famous manufacturing firm with the installation of a constructive credit policy is worth telling in their credit man's own words. "We had an account in Indiana," said the credit man, "a good fellow personally but he couldn't pay us. I said to our president, 'Why couldn't we hire somebody to put Jones's business on a decent foundation? Isn't Morris—one of our salesmen—the very man?' Our president agreed with me and sent Morris down to this town. The merchant owed us seven or eight thousand dollars. Morris sized up the situation and made up his mind that the business opportunity was good, but that the owner would never make a success. So he conducted a big sale, and through his knowledge of the trade, found a buyer for the business. Morris used to be a

successful merchant in our line before becoming a salesman. Now we are using him more and more for this kind of work. If a customer is honest and has ability, Morris can help him out. He knows store systems; he knows how to conduct sales; and if a man needs stirring up, by a campaign of publicity, he knows how to put that on for him, too.

"In the old days, in some businesses I know, the sales and credit departments were constantly at loggerheads. The credit manager was often a sour old fellow who had been at the job for many years and had found the easiest thing he could do was to turn down orders. If that was all my job as credit man amounted to, I wouldn't take it. There would be nothing constructive in it. But to get hold of a concern that needs guidance and to direct it so that its owner can make something of himself—that is the only real fun in being a credit man.

"We consider now that our business is to make merchants out of storekeepers. Our salesmen have become enthusiastic over it, though not without some difficulty. One of our salesmen said that his job was to sell goods, not to sell advertising, but he came around to the right point of view. And the other day he told me, with a chuckle, 'On this trip I sold a man $2,000 worth of goods and $4,000 worth of advertising,' meaning that he had persuaded a customer to take on a campaign of advertising that would mean sales of $4,000 to him.

"We make money by following out policies like this, but that is not so important. It is really carried on at very little expense, but even if it cost us more, we should be glad to do it. We are helping people help themselves."

Pulling a Gun on the Overdue Customer

"When we have trouble in collecting," said the vice-president of a well-known jobbing house, "I believe in pull-

ing a gun on the customer. And I want to show you the gun that I pull. He is one of my assistants in the credit department who is so full of ability to help the retail merchant out of trouble that I keep him on the road now more than half the time, attending to difficult cases. When he has once pulled a dealer through the thick of some trouble or other, that man can be handled by mail in the future. And the personal friendly acquaintance he acquires while on the road gives him an immense advantage in getting in the money from nearly all our trade. I went through some of the same experience myself," concluded the vice-president, "and in case of real need, I pack my bag and jump on the train to talk things over with a customer who is in difficulty."

Choosing the Right Medicine

It must not be thought that these constructive dealers in credit pick up a slow and helpless account and nurse it along. In their judgment to prolong the life of a business consumptive is little short of criminal. But the eye of a skilled credit man can detect the indications of healthy life, where these exist, and diagnose the case properly.

In a Dakota city lives a customer of a certain manufacturer who has done business with them for fifteen years and for fifteen years has been slow pay. His father-in-law, who was his predecessor, had likewise been slow pay for nearly as long a period. In March, 1915, their financial statement showed such a financial condition that the manufacturer wrote the following letter:

Gentlemen:

We acknowledge receipt of your letter of the 27th in which you enclose a statement of your affairs showing total assets $62,553, liabilities $19,825.98, and a net worth of $42,727.02.

A comparison of these figures with those of February 11, 1914, shows a loss of $11,295.98. In addition you have valued the land in Colorado at $7,500, whereas a year ago you valued it at $6,400, so that your actual loss is $12,395.98.

Your percentage of indebtedness has increased from 22.7 to 31.7. Your sales have decreased $11,000; however, your expenses remain about the same.

Your stock of merchandise is unreasonably high and until it is reduced to at least 66 2/3 per cent you will find it difficult to make any net profit in cash. You ought to start a special sale and not discontinue it until your stock reaches $15,000. This is a difficult matter to accomplish, but the sooner you take your loss the better. If we can be of any help to you in writing your advertising, or in planning your sale, we shall be pleased to do what we can.

We assume that you have not given any security for the notes to banks and relatives, but should like to have your assurance in this regard.

Yours truly,

Despite this vigorous call to order, however, matters dragged along until in July the manufacturer, having added a field expert to his staff, sent him out to Dakota to look the ground over. The "ambassador" found a pair of honest and capable merchants doing business on wrong-headed principles and stubbornly sticking to them. His letter analyzing the position, which now lies in the files of the house, reads as follows:

Gentlemen:

In reference to ..... of ....., the condition there has come from trying to carry stock in all grades of merchandise from the cheapest and up, and then not making a whole-hearted clean-up after each season.

Then they have the idea that it was necessary to carry a $40,000 stock to do a $50,000 business, for fear some trade would get away. They keep a neat, clean store and their stock is in good condition, only it is $20,000 too big, even for a $50,000 annual business.

They are fine advertisers of our merchandise, using our cuts and display matter right through the selling season, but their efforts during the dull seasons have never been very enthusiastic, because they have been doing all they can to depreciate the sales end of it, even to running advertisements about the evil of sales.

They say they are paid up on spring bills, except ours, and a bill of summer stuff not due, and if they can do any July and August

business they can clean it all up. They have only $7,000 bought in all for fall and by keeping their future buying to this limit for the next two seasons, they can reduce down to something near normal and they say they will carry out our suggestions during the next year and find out if we are right. They think their expense will be a thousand less this year. If so, they will break about even if they do around a $40,000 business.

Local prospects for fall business are very good, providing they can harvest the crop in sight. The wet weather which has continued during the past thirty days is doing a great deal of damage now and has made business very quiet for all lines.

Yours truly,

What this letter does not say is that the traveling representative talked tactfully for *two days* to the stiff-necked business men and that by the end of that time they saw the error of their ways. By an energetic sale, they cut down their stock to $15,000 and since that educational experience have discounted every bill.

Taking an Inventory of the Debtor

The choice between "insolvency, insincerity, and instalments" was made by one famous jobbing house at the request of a territorial manager, who thus instituted a policy which has been continued ever since. The account of a dry-goods man in Colorado was so far overdue that the jobber, in conjunction with other large creditors, was ready to proceed to extremities and close him up. But the territorial manager had a strong feeling that other measures might be even more successful and persuaded the credit department to let him get out on the ground and see what could be done. He discovered after inventory and analysis that a crop failure in the district had made local collections impossible. The merchant had $65,000 stock and $18,000 on his books. The total of his indebtedness to creditors was $26,000. The inventory showed a healthy condition. But what could be done? It remained to inventory the merchant himself and the entire

local situation. Unfortunately the first inventory showed a total lack of the necessary asset—courage. The dry-goods man had thrown up his hands in despair. Lacking invention and resource in himself and feeling that his creditors were on his back like a pack of wolves, he had sat down to await the inevitable.

Thereupon the territorial sales manager stripped off his coat and began to work. The second part of the "inventory" showed that in one part of his territory the crop failure had been only partial. The problem was to get the business where the business existed. The stock was renovated by rearranging and a little judicious buying. A new store front was built at small expense with a loan from a banker who was encouraged by the jobber's interest. And, most important of all, a vigorous campaign of direct-by-mail advertising was started to the outlying territory using simple letters and folders gotten out by the local printer, giving interesting descriptions of the stock and offering week-end bargains.

In eight months the stock was satisfactorily reduced, the bills were paid, the business was preserved, and the merchant made money for himself and the far-sighted jobber. The "insolvency" method would have destroyed his stock; nobody would have paid more than twenty cents on the dollar for it. The merchant himself would have had nothing out of it, and, being too old to start in over again, would have gone to the poor house.

Analysis on the Spot

The same jobbing house had another similar experience with a merchant whose showing was decidedly bad. The credit man had determined to close him up. But again, the efficiency expert came to the front, saying, "That man, I believe, is good. Let me go down and see." The credit manager reluctantly agreed to give him a chance, but warned

the efficiency man that his confidential information looked very black and the firm owed it to itself to take prompt action. But as is often the case, analysis of the situation on the spot disclosed many features which the merchant either could not or would not entrust to a statement made on paper.

The merchant himself, instead of sticking by the store, and giving it the benefit of his constructive energy, had been traveling on the road for a local manufacturer, leaving all the business in care of his wife. Moreover, being the type of man who likes to have many strings to his bow and to look on himself as a local magnate, he had tied up part of his capital in a flour business, a fact quite unknown to his creditors. To top the story, his wife, being a little timid, had granted credit indiscriminately. The net result was that, though the merchant's record had been good in the past, he now had with this jobber alone $1,300 past due, and $600 current.

A strong advertising campaign was the medicine recommended for this case. It reduced his stock and created local interest in the store. The merchant stopped his outside traveling, sold his flour business, and began to have a vision of the opportunities for a country retailer. In four months his bills were paid. But what was of vastly greater value, he had learned the force of constructive advertising and in a short time doubled his business. Needless to say, he has been a good customer of the jobber ever since.

A Looted Business

Sometimes a credit man can tell a story of a business so heavily looted by its own proprietor that the most desperate efforts of financial counselors are almost in vain. One man lifts the veil from the operations of a merchant who built an expensive house in southern California and went to live there, taking out so much money from his Indiana store for

living expenses that the manager he left in charge couldn't make the business go. For five years the credit manager has been nursing this house, partly because the business has possibilities, partly because he at one time gave advice that failed to bring results, and so he has considered himself bound to stand by the ship. Twice a year the field expert has visited him in this Indiana town, to go over his balance sheet and his merchandise. Lately, he has sent in his balance sheet every month for the credit man's advice. At one time he owed this firm, his largest creditor, as high as $15,000. But at last, the struggle has succeeded; the firm has been incorporated with the manager as part stockholder, the owner in California has been cut down on his "allowance," and the store is on a paying basis.

Deceiving a "Silent Partner"

Another story of a hard struggle is told by an assistant credit man who, beginning as a successful merchant, and then making a record as a salesman, was taken into the credit department of a direct selling manufacturer.

"The business I am going to tell you about was worth $85,000, owned by a banker who was entrusting all the conduct of affairs to his partner. The store was constantly behind with everyone, till at last the banker asked our advice. I went down on a New Year's day and the banker and I sat down in the directors' room and talked things over. 'I don't know,' he said, 'how my manager will take it.' However, I suggested that he take me up to the store as an efficiency man who travels around the country and who might be able to give some suggestions.

"The manager had the small-town point of view. He resented what he called my attempt to 'show him how to run his business.' In a few minutes I saw that he really knew nothing about the state of the business but guessed

at everything. It was his habit to buy up bankrupt stock around the country at fifty cents on the dollar and then sell it at full price. 'Where is the rest of it?' I asked him. 'Is any of it still lying on the shelves?' But he gave an evasive answer.

"Next morning I came down to the store and found the manager more sullen than ever. His greeting was, 'Are you still here?' He even called up the banker and told him, 'I won't tell this fellow anything. You might as well send him home.' Nevertheless, I looked around the store a little that morning and made up my mind about a few things before meeting the banker at lunch. 'Your manager,' I told him, 'has in my estimate $20,000 less goods than he should have to make you safe. More than that, I believe his expense is running up close to thirty per cent. Then too, I saw seven or eight clerks wrapping up merchandise and handing money to the cashier. But they seem to be pretty good friends of some of their customers and I doubt if you are getting full price for all your goods. Give me a chance to take actual inventory of stock and I'll find out the truth.'

"Then the manager and the banker locked horns. The manager began to bluster. He called for a division of the profits and an immediate dissolution of the partnership, claiming that he had made $20,000 and saying that he would be content to take his ten thousand and go. But the banker refused, because on the basis of my report, he had begun to think there might be a loss. Thereupon the manager discharged the clerks and locked the store and came down to the hotel to accuse me. I didn't have very much to say to him, being always accustomed to do more thinking than talking, but I told him I had merely been called down to express an opinion and that I was sorry if matters hadn't turned out as he expected. I advised him to

see an attorney before he kept that store locked very much longer. The attorney, of course, told him to open up as quick as he could. And then I got at the truth.

"Well, I disposed of this would-be manager for $500. After a little talk he reduced his first claim of $10,000 to $5,000, but in the meantime I was going through the store, and told the banker to hold off. He was willing for the sake of avoiding trouble to give the manager $1,000. Without saying anything as to the amount, I went down to call on the manager the next night with a lawyer and a pocket full of cash. We had a little conversation. Then I said to him, 'Your partner is willing to do the right thing for you, to give you a little money and release you from all liabilities.' I stood up by the parlor table and pulled out of my pocket $500 in five-dollar bills and counted them out right then and there. Well, he took them and left.

"What did my investigation show? It showed that he was short $18,000. His expense was costing him 32 per cent, and in the last year or six months had cost 38 per cent. His gross profit was not 40 per cent, as he supposed, but 28 per cent. No merchandise in the store was sold for the marked price.

"Today that store is running profitably. The banker knows the percentage cost of every item in the store and he knows just whether each clerk is selling enough to pay his salary. A genuine rock-bottom analysis of the business is constantly kept up.

"If merchants would only analyze, they could find out what is costing them money and what is making them money. One of our customers was struggling under a rental costing 14 per cent of his annual sales. Six per cent I consider high and 4 per cent good. Another man's clerks were costing him 14 per cent, where they should not have cost him more than 6 to 8 per cent."

Financial Advice

Advice in financing can often be given by the credit manager whose familiarity with various expedients sends a beam of light through clouds that look like a cyclone to the less experienced merchant.

The familiar fault of continual overbuying had almost reduced a popular young merchant to extremities. He had begun with $10,000 capital and a retail following that he thought would stay with him wherever he went. His first purchase was $15,000 of stock on which he paid $10,000. His fall purchases were $21,000. In October the representative of the credit department visited him and asked how much stock he had on hand and ordered. He didn't know. But he did know that he was opening boxes all the time and that more were coming in. How then did he expect to pay $21,000 for his fall purchases? He replied that he would get it from the bank. But a moment's conversation showed him to be carrying already as much as the local bank would allow. The representative of his creditor on analysis discovered that he had made $28,000 profit, but on an expense of 26 per cent, which was too heavy. However, the stock was all new and no depreciation was necessary in the estimate. He was persuaded to incorporate and sold a heavy block of stock with the assistance of his friend, the expert. The latter also wrote letters to all his creditors, for he was being sued right and left. Last but not least, the friendly credit representative bolstered up the merchant's courage, told him he had something in the middle of his back besides mush, and that if he would stiffen up and get to work, he could pull through. The result is a prosperous and well-financed business.

Another young merchant out of sheer gratitude for the helpful advice he had received, wrote to his principal creditor that two months more would see him broken, and invited

the creditor to come down and "get his first." But an investigation on the spot showed that they had an equity of $7,000 above their debts, the only misfortune being that a large amount of the capital was tied up in their store building and in a home which this man owned. His mistaken hypothesis was that if he owned these buildings he did not have to pay rent, and so he saved the money. It had never occurred to him that he couldn't pay bills with money that was invested in buildings and real estate.

His friends and the bank were persuaded to take over this property and letters were written to his creditors stating frankly what he was trying to do and asking for 60 days' more time, telling them that in 60 days their interests would at least be in no greater danger than they were then. Today this young merchant is conducting a successful clothing business.

A Striking Success

"I wouldn't want to tell you even in what section of the country this man was located," said the wholesaler who recounted the following case, "because his success on following our advice was so spectacular that he might be recognized. But his good fortune has given us courage many a time to stick to what we know are right principles.

"Three partners opened business in this store with $6,500. One of them was a wonderful salesman. They did $24,000 the first year and then, on our advice, this man bought out first one and then the other of his partners. Last year he did a business of nearly $200,000, and this year he will better that by a hundred thousand. His net profit last year was $22,000. In seven years he has actually earned $100,000.

"What is the secret? He put himself unreservedly in our hands. And let me tell you that when a man is willing to

take our advice, we are very careful to give him the best we have. He is a man of charming personality, frank and open-hearted, and takes us fully into his confidence. He was guided very closely by our advice in the amount and the kind of his purchases. He wanted to put in a side line of other merchandise, but we advised against it and he kept free from it. Right now, we are laying out his windows and floor plan for a remodeled building. This man has the real sales instinct, and he has shown ability to learn merchandising also.

A Good Salesman but No Business Man

"But we are not always so successful. Here is another bundle of papers that tells a different story of a merchant who was a marvelous salesman with a real *flair* for our line of business. He always overbuys but he always sells his stock. Nevertheless he does not know how to finance his undertakings, and he has finally gone in so deep, we do not see how he can possibly pull out. He had too much business for his capital. Our representative camped on his ground and got his father to invest $3,000 in the business. But even that isn't going to work. The man must have a partner who has financial sense or else he must sell out and go in as a manager in a department in this line in another store. I rather think I shall advise him to do the latter."

Another merchant had demonstrated his ability by opening a successful store in the vicinity of a competitor whose business was declining. "All the men around here are carpenters," he explained, "and they have all gone into the shipbuilding industry." But his lively young competitor in the same district was actually doing too big a business for his capital. His creditor's admiration was aroused to such a pitch that he exhausted every device to increase the plucky merchant's capital. After his relatives had been tried and found wanting, a friend was discovered who indorsed a note for him.

"If We Had Followed Your Advice . . . . "

A jobber handling a line of staple goods different from the one mentioned above, tells a similar story in which failure resulted from a merchant's unwillingness to take his creditor's advice. These were cousins in a Middle Western city who became real-estate crazy. Despite their surplus of several hundred thousand dollars, they borrowed more and put the whole sum into land operations. Their capital and their energy were so tied up that we advised them, 'Get out of one business or the other.'

"At last they sent us an order for a large amount which I refused to send to our factory because I knew they wouldn't last. They did sell one piece of land at a great sacrifice to help me out and by careful work I got their accounts with us down to a few hundred before they failed. Today, though successful in another line of business, they tell us, 'We know our mistake, and wish we had taken your advice.' "

Getting the "Big Head"

Overbuying and eagerness to extend the business too rapidly, especially by starting a chain of stores, are the two business mistakes which one traveling credit representative is constantly fighting. He has notes in his diary about two partners who began in a western city with $5,000 and by dint of wonderful advertising made $90,000 sales in the first year. Instantly the rainbow vision came before them of similar establishments making hard cash out of thin air in other cities. They started a chain of stores against the advice of their creditors. But being unable either to finance them or give them proper supervision, they failed

first in one city, then in another, and finally in the city where their first growth had been so promising. This sad result was partly due to a slump in local business conditions which struck them amidships as they were trying to bring their venture into port under a spread of sail too large for their ballast.

A Credit Man's Working Program

A working program provided by the credit man for a merchant of limited experience is described in the story of a retailer in Arkansas, who began with $2,500 capital saved from clerking for many years. His wife mortgaged the home given them by her father for $1,500. A thousand dollars went into fixtures, another thousand into charge accounts, and at the end of the year the man owed $8,000. "I can't make it go," he said despairingly to the credit man. "I'll have to take the loss of my savings of a lifetime and go back to clerking." "Don't give up," advised the credit man. "You can borrow some money and with our help persuade your creditors to give you a chance." Through a second mortgage on his home, he raised a thousand dollars and arranged with his creditors to pay back $100 a week. An active merchandising program involving a rousing sale, strong advertising, and an increased volume of business at a lower price enabled him, to his own amazement, to repay his bank and to hand over to his creditors $300 a week.

Applying the Rod

While the constructive credit manager is willing to "go the limit" with a customer who shows a disposition to work with him, he must be equally ready to apply the penalty for unwillingness to co-operate. One of the most popular men in a small town in Minnesota took over the business of his father, who had always discounted his bills. But the popularity of the son was the undoing of the business. He relied so much on his friendships and so little on efficiency that his patrons began to buy from his competitor. The credit man remonstrated and finally sent down a personal representative, who wrote back confidential advice to hold back all orders until the merchant promised to reform. This drastic action was thoroughly explained, with the result that the merchant at last accounts was struggling to turn over a new leaf.

Sometimes the credit man sadly sees his own judgment vindicated in the ruin of an unruly merchant. Two partners in a western New York store after several years of moderately good business grew impatient with the rate at which their wealth was advancing and decided that their city owed them a living. Their operating expense under the influence of this new gospel crept from 18 to 28 per cent, and when the credit man came down to look things over, he found that each was drawing $4,200 a year out of the store. "No, this won't break us," they said in explanation. "When we began doing business, we gave merchandise away, at prices that were far too low. Now we find that people know nothing about values and so we are simply getting more for our goods." The rest of the story is that the credit man saved himself, but the experiment of the two partners in trying to pull their profits up by their boot straps kept them out of the hands of the sheriff for just two years longer.

Constructive Advice at Time of Sale

Suppose you never gave a man advice with regard to credit unless he owed you money, wouldn't he begin to suspect that your interest in his prosperity had a decidedly selfish angle? So reasons the best type of credit manager, who, recognizing that collection has a permanent place in his marketing plan, makes use of inserts and special

articles at the time of sale and not only at the time of collection. Edward M. Skinner, general manager of Wilson Brothers, Chicago, made use of the following significant and patriotic appeal in the January 1918 issue of the catalogue of his house:

Dear Sir:

May we, in this foreword to our Spring and Summer 1918 Catalogue, say just a word with reference to our industry (Men's Furnishing Goods) and its relation to the U. S. Government, and its successful conduct of the War?

All industry, either during peace or war, can only exist through having both sufficient supply of coal and efficient and reliable transportation.

Our railroads have not been able for very good and sufficient reasons to keep up to standard either their motive power or cars; the great strain of immensely increased tonnage will further reduce their service.

As to coal; it is evident it will go first to the railroads, and second, to those industries whose entire production is for war purposes, and while our output for the year will be 50,000,000 tons ahead of 1916, the supply will fall short of requirements by an equal amount.

The Government has been able so far to spend only about one-half of its war appropriations because of its inability to secure labor.

It seems evident to us, therefore, that as we become seriously in earnest in equipping our men for our part in the war, peace industries will be forced to greatly curtail or discontinue the use of Coal, Transportation, and Labor.

If our analysis of the situation is correct and meets with your views should we not, both you and ourselves, immediately eliminate from our stocks absolute non-essentials and as fast as possible reduce our merchandise and confine our operations to that part of our business that is at least *most essential?*

It seems to us this is not only good patriotism, but good business.

So far it has been left to the merchants and manufacturers to decide for themselves what are the essentials and non-essentials, and many of the oldest and best advised manufacturers have already concentrated on either war work or on staple goods only.

Will we not in our industry have a better chance of ultimate survival as a distributer of essentials, if we promptly concentrate on merchandise that will have "merit in service and will be attractively styled without extravagance"?

We submit these views with our thanks for your continued support and our desire for your co-operation and your views.

Yours very truly,

Another instance of the constructive interest of this house in its dealers' welfare is displayed in the following letter which warns the dealer to take his price advance at the time the market goes up. The especial pertinence of this letter is that the failure of merchants to take the action it advocates has diminished their capital and is forcing them to ask their creditors for more time.

Dear Sir:

How a merchant can make a net profit
on every sale and still "go broke."

An actual occurrence

A man bought a retail grocery business for $8,000 cash. In eighteen months he had a stock of $14,000 and owed $6,000, and had practically the same stock with which he started.

And yet every article sold had been at a satisfactory net profit.

How did it come about?

This illustration of *only one article* in the stock will show.

In this stock were two cases of condensed milk for which he paid 8c a can and sold for 10c, the gross profit being 2c, the expense of 15% on selling price (expense in grocery business is less than in ours) was 1½c, leaving a net profit of ½c on every can.

Now if this merchant *had been closing out his business* he would have had his money back, his expense, and a profit, but he is continuing in business and must replace the two cases of milk.

But the price had gone up to 12c a can.

He only received 10c and has to pay 12c.

Where did he get the 2c?

Another instance:

A drygoods merchant sold his entire stock of goose feathers, for which he had paid 65c a lb., at 90c a lb., making a profit on every pound of 25c.

Now, as in the other case, if he were closing out his business he would do so profitably on this basis, *but at the very time he sold his stock at 90c a lb. it would cost him* $1.35 *to replace every pound. The 45c a lb. was an absolute loss and had to be taken from*

accumulated capital, or had to be borrowed, or would be an indebtedness.

The answer is that unless a merchant sells an article at a price that would enable him to replace the article and have a net profit over his expenses, he is losing money.

Hundreds of merchants are doing, and have been doing, this same kind of merchandising, and will surely come out as this grocer did.

Yours very truly,

CHAPTER XXVIII

MORE CONSTRUCTIVE CREDIT WORK

Co-operation With Customers

If any efficiency department is conducted to give advice to merchants, shall it operate under the wing of the credit department or the sales department? The latter, reply some executives, because when a merchant's volume of business with us is low, the salesman can very reasonably get after him to help increase his efficiency and his purchases together without saying anything unpleasant about his credit situation. At the same time we may know very well that our sales to him are small because the credit department is keeping them so. The question is merely as to whether a salesman or a credit man can make the more tactful approach. Others reply that the credit department is the proper branch of the house to send out helpful suggestions or personal representatives, because in most cases what is needed is not only more energetic salesmanship but better accounting and financing, and above all, better retail collection. Both branches should co-operate, reply still others; and here perhaps is the true answer.

Hart, Schaffner and Marx will tell you they have no difficulties in obtaining co-operation between credit and sales because both functions are handled by the same executives. Their field representatives who wrestle with the retailers' problems are skilled in advertising and sales and also in credit, collection, and financing, and the "dealer helps" of this house include a well-equipped advertising service for retailers, bookkeeping forms, and the well-known booklet,

"What Do You Know About Your Business?" prepared by H. R. Kern of the credit department.

From whatever angle the need of the merchant for constructive advice may appear, it is certain that the need of the seller is always the same, whether that need is felt most acutely by the sales or by the credit department. Both want to sell the merchant more and always more goods. Neither wants to sell him one penny's worth more than he can dispose of to advantage. When the credit manager turns down an order sent him by the sales department, he ought to be able to say with utter truthfulness, "This hurts me as much as it hurts you."

The Traveling Representative

Suppose a merchant has put an unproductive department into one of the best positions in his store, and is crowding a potential profit-maker into an obscure corner. He ought to have an accounting system that would warn him of the high rental cost and low returns of the former, even if his imagination is not equal to grasping the possibilities of the latter. Now, how is this to show on his financial statement sent through the mails to the credit man? But the traveling representative on the ground can discover the difficulty. If he brings the money-making department into the sphere where sales are more possible, then his house sells a larger volume of goods to the merchant, who in turn makes an increased profit, and everyone is benefited by the simple change.

Or suppose that the salesman is "called off" from his visit to a certain merchant because the credit limit has been reached and the payment of certain invoices is long overdue. Again the traveling representative may discover—what is almost always true in such cases—that the merchant has no system of collections worthy the name and that what he

needs is tactful explanation of how to install such a system without driving away trade.

The field representative will pay his way with a far greater number of houses than at present employ his services. Such men are, it is true, rare; rare in their expert knowledge of retail merchandising, rarer still in the tact that can avoid arousing antagonism, in the cheery energy that puts life into a despondent heart, and in the kindly sympathy that inspires confidence. Nevertheless, such men can be found. All honor to them and to their work!

The house which cannot employ a special representative for such work has still the members of its credit and sales department who can take an occasional trip to study the needs of a case on the grounds. Moreover an enormous amount can be done through special pages in the catalogue, articles in the house organ, special bulletins, folders, inserts, letters, etc. The house organ of Eaton, Crane and Pike Company, lives up to its title "Pull-Together," by publishing articles suggesting improved methods of accounting, etc., as well as sales methods that mean immediate increased revenue. This is but one house organ example out of many.

Illustration of a Constructive Program

The constructive program of the B. F. Goodrich Company is indicated in the following excerpts from a letter written to the author by its credit manager, V. I. Montenyohl. Personal acquaintance is upheld as the best basis for credit, and the opportunities thus afforded for advising the dealer about his business are grasped by credit department and sales department alike. This company has districted the country, and intends "to have a credit department representative within a few hours' ride of practically all our customers." The manager looks forward to the time when "practically no collections will be made by mail."

In those cases where it is impossible for us to have a representative call on the customer, we have tried to have all accounts closed on our books at the expiration of 90 days after the term of sale. Of course, this period varies, depending upon circumstances, but the general average will be very close to the period named. If at the end of that time our efforts are without results, the accounts are referred to attorneys for attention. This procedure will apply to a large number of accounts of comparatively small amount. We endeavor to form a personal acquaintance and influence with the customer and we are glad to be able to report that the results have been very satisfactory.

We are anxious to increase the amount of work which we have been doing in this connection. We aim to have a personal acquaintance with as many of our customers as is possible. To accomplish this we have the entire country divided into districts. In each district territory we maintain a fully equipped credit organization. At the present time we have fifteen organizations of this kind and some of them control territories comprising several states. We are now establishing in the larger territories subordinate credit departments at points which are advantageously located and these departments will operate under the supervision of the main credit department in each territory. We are doing this solely to get our credit representatives nearer to the customers with the idea of strengthening our influence due to the closer acquaintance which can be more readily formed. We hope when conditions permit, to have a credit department representative within a few hours' travel of practically all our customers.

The constructive work which can be done by the district credit man is one of the chief considerations. If we can gain a personal knowledge of a prospective customer or additional information regarding an old one, we are able many times to accept new business, which we would ordinarily refuse, to increase old lines of credit. Again we often, simply through our personal acquaintance, influence a customer to discount our bills, and as the discount is usually a liberal one, it means a considerable saving to him and makes it unnecessary for us to solicit payment either in person or by correspondence. We are looking forward to the time when practically no collections will be made by mail. In this connection, we are greatly assisted by our sales representatives who have come to realize that a past-due account defeats their sales efforts. Both the sales and credit departments are co-ordinating their efforts to secure the best class of customers, considered from the angle of the greatest good to the corporation.

In some instances the sales department is not always able to

sell a concern whose responsibility is unquestioned and is obliged to secure orders from concerns with limited capital. In those cases we help them by an "on the ground" investigation and an acquaintance with the prospective customer. In this way *we have found it possible to accept business from many concerns whose orders would be refused if our representatives simply sat at their desks and dealt with facts as contained in the commercial agency reports.** On the other hand, we frequently experience difficulty in adjusting an account by correspondence and are obliged to solicit the aid of the salesman who regularly calls on the concern.

The representatives in both the sales and credit departments appreciate the fact that "a dead customer pays no dividends" and as long as there is a possibility of doing a satisfactory business with a customer, we continue our efforts to make that business an actuality. We realize that there is a tremendous amount of work to do along these lines as we carry an average of 60,000 accounts on our books at all times and the conditions are constantly varying. Customers who were formerly prompt pay, are not now and *other customers whose accounts we have watched carefully have graduated from this class and are now considered among our most satisfactory accounts.** We know that next week or next month there will be changes in a certain percentage of the accounts which are open on our books today.

We have developed our theory of personal acquaintance with customers to the point where we are satisfied that the results are going to be worth our efforts and in the end will pay high dividends.

There is literally no end to the constructive suggestions that can come from a credit man before delinquency. For instance, a certain lumber company that had made up its mind to improve payments by helping its dealers to do better business, sent out a booklet of efficiency suggestions showing among other things how to make prompt collections. The letter introducing the booklet called attention to the importance of prompt collections by builders from customers, and of equally prompt payments from the builders to the lumber company, if prices were to be kept low enough to combat mail-order houses. A similar argument was used by a jobber making a specialty of cash bargains that enabled country merchants to meet the prices of the catalogue houses.

*The italics are the author's.

Dealer's help booklets of every kind have an opportunity to preach efficient accounting, prompt collections, quick turnovers, and prompt payments as a means of keeping prices low to the dealer and of enabling him to give low prices to his customers. Specific instances drawn from the conduct of a particular business form the best material for this purpose. The Sherwin-Williams Company, and H. Uehlinger, credit manager for Moller and Schumann, manufacturers of "Hylo" varnishes, are frequently quoted exemplars of this kind of constructive work.

A commission merchant whose terms are necessarily short, prints a strong appeal to self-interest on the back of every statement and invoice. He points out that goods will spoil unless turned rapidly, and that the maintenance of short terms is for the benefit of his customers as well as for himself. Merchants in other lines with longer terms would probably prefer to send such an appeal as a printed insert with the statement, when payment is past due.

The Appeal to Pride in Selling Credit

When customers are of good standing and business transactions are large, credit education must be conducted very delicately. A favorite method is to treat such customers as equals, and to pass on to them items of information they may find useful in establishing prompt credits and prompt collections with their own customers. This appeals strongly to pride and has no hint that the advice is intended to react directly on the man who listens to it.

Most credit education is conveyed in this fashion.

An appeal to pride of a different kind is also used by instalment houses or others undertaking an extremely hazardous risk. A large credit mail-order house at the beginning of a letter of solicitation tells the customer, "I have been told that you are a thoroughly reliable person—

one who takes pride in a cozy and pretty home, and frankly I am anxious to make you a customer of mine." Other paragraphs of the letter read: "We never made any distinction about a person's occupation or earning power. There is only one thing that recommended a person to us and that was—honesty." "Notice that we ask for no references or securities. During a half-century of business dealings with home-loving people all over America, we have learned that such folks are honest. And it is not necessary to tie up our wonderful credit plan with red tape, embarrassment, or annoyance."

Industrial Service from Banks

The interest of banking houses in the efficiency of business men who have secured a line of credit, is hardly less than that of the jobber or the manufacturer. This fact is recognized by the National City Bank of New York in its installation of a Department for Industrial Service on an equality with its Foreign Trade Department and its New Business Department, its Credit Department, and its other departments. According to M. C. Schwedtman, vice-president, in a recently issued folder, this department "will combine, with the systematic examination of the physical and financial management of industrial concerns having credit relations with the bank, a service of expert assistants in standardizing methods and accounting. Visits will be made by members of the department to customers' places of business." In eloquent and prophetic words which should be read in full by every banker and credit man, Mr. Schwedtman expresses the hope that the bank will, by virtue of the personal contact thus established, not only be able to appraise the true worth of such assets as personnel of officers and labor conditions in the factory, "but also by placing the emphasis on better methods of doing business, to help swell

the tide of interest in scientific cost-keeping and more efficient management, regarded by keen observers as essential to our success in the worldwide economic struggle certain to follow the present war. . . . . No applicant for a line of credit that is worthy of serious attention should ever . . . . be refused without setting forth the real reasons, tactfully and in the most friendly spirit, and making what constructive suggestions seem pertinent."

"Who," asks Mr. Schwedtman, "is or should be more deeply and vitally interested in the general prosperity of industry than the banker? He wishes or should wish nothing for the individual business which is not for the highest good of that business, for what is of lasting benefit to it is to the bank's good as well." Education is a primary necessity. "What an infinite deal can be wrought through the channels of education! Ignorance is our common foe; if we knew better we would do better. . . . . Co-operation in the interchange of knowledge and ideas is an absolute essential to progress, and the individual, whatever his station in life, who shuts himself off from his fellows, who assumes that he knows all there is to know, or at least all that is worth knowing about his specialty, is standing in his own light. He not only robs himself but all society, and his loss is in proportion to his responsibility."

"How We Can Help You"

The First National Bank of Utica, New York, issues under this title a booklet which explains its ability to give service of unusual type to its patrons. In a section emphasizing the importance of efficient bookkeeping, it freely places at the disposal of its customers the service of its bookkeeping experts. In the matter of eliminating waste in office routine, the bank offers the benefit of its own experience.

Many a bank today is taking stock of its ability to serve

its customers in ways that will increase their efficiency and prosperity and that will help the bank grow at the same time. These are but other illustrations of the kind of credit work that is not only preventive but constructive; that builds good-will and establishes a confidence that is of untold value when difficulties arise.

A Diploma from the School of Hard Knocks

Somewhere in the Middle West there is a retail merchant who prizes highly a letter written him by his largest creditor, at the end of a severe struggle covering a year and a half. It is selected to close this chapter, not only because of its fine expression of appreciation, but because it shows that the end of a piece of constructive credit work is only the beginning of a vigilant program of efficiency.

Dear Sir:

You have again proved yourself to be a man of great patience and good courage.

In February, 1914, when you disclosed the status of your business to us, we did not think you had much more than a fighting chance. Some of the other creditors with whom we communicated at the time were very strongly of the opinion that you had no chance at all.

Consequently, it is a matter of pride to us to be able to mail a general letter to creditors, calling their attention to the successful result of your effort. We congratulate you and wish to express our admiration for your pluck and judgment.

It is a rare thing for us to make suggestions to other creditors in affairs of this kind. In a period of ten years, we do not recall that we have done it more than twice. Having known you for a long time and having faith in your power to straighten things out, we took it up in this case.

When your sales fell off immediately after the extension was arranged and it proved so difficult to reduce expenses, we confess that we had some serious doubts about you, but you met the double difficulty without any tremors and did nobly in overcoming the unexpected obstacles.

While your merchandise creditors are entitled to your thanks, one source of assistance which enabled you to carry your business

on and to re-establish your merchandise credit was the staunch support of your bank, which not only showed its confidence in you, but evidenced its desire to sustain local enterprise.

Having gone through this experience, you ought to be able now to handle your business in such a way that the pitfalls can be avoided; you are stronger in experience and in judgment as a result of the effort of the last year and a half.

We hope you will not feel that the battle is wholly won; you still have some current merchandise bills and the bank indebtedness. Your expense is high in proportion to your volume, so you must be careful.

For your sake, we trust that an improvement in conditions will enable you to increase your volume of sales and we advise you earnestly to continue to hold down your expense so that you can make some profits with which to increase your capital and thus gradually work into the zone of safety.

In accordance with your recent request, we are enclosing a statement showing a balance due you of $.....

While it is customary under extensions to charge interest for overtime, we have waived the charge in this instance as a slight evidence of our appreciation of your efforts.

Yours truly,

CHAPTER XXIX

SYSTEM FOR A COLLECTION DEPARTMENT

The Value of System

A good system, well maintained and lived up to, will go further than any other one thing to insure good collections. On the other hand, no matter how broad-minded and capable the members of the credit and collection departments, their efforts will go for naught without a good system.

The force of habit is utterly lost as an ally to the creditor unless the customer receives his statements and letters promptly and regularly. If mistakes or irregularities occur, the prestige of the house, that vital asset in enforcing payment, suffers in the customer's eyes; he feels that he has a right to be lax since the members of the organization have made errors, and where they have taken an inch, he considers himself privileged to take an ell. Resale arguments lose their power when addressed to a man who is thinking, "You can't depend on those people. Half the time they send out their bills late, and then they jump on you for being late yourself." Plenty of customers willingly exaggerate small errors, and what is worse, claim them when they do not exist. It is hard to preach virtue when you set a bad example.

Reasons for Differences in Systems

The nature of systems varies, even in firms with similar problems to meet. It varies still more in firms of different types. The number of accounts, the size of accounts, the

frequency with which customers buy, the nature of the customers, all require differences in system. A manufacturer doing a business of $30,000,000, with average individual charges of $150; a jobber with 65,000 live accounts, many of whom are buying every day or even several times a day, and with average charges of $30; a manufacturer with only jobber accounts, or one selling to both jobbers and retailers, or one selling direct only, will have different requirements in the way of office organization. Here is a house producing an exclusive specialty, with novelty features, an article that turns itself ten times a year, and that by its nature must be bought "short" lest it spoil on the dealer's hands. Terms are 30 days net, and are rigidly enforced. Over 50,000 jobbers and retailers carry the goods. The system of this manufacturer will be one thing; quite another will be that of a publisher selling a high-priced set of books to the general public, on instalments that run for two years. Is the article a piece of machinery, costing a thousand dollars and sold to highly responsible purchasers in a limited territory? Or is it an assortment of low-priced watches, sold to all manner of retailers, both small and large, from Maine to California? The office problems of the two concerns will certainly not be the same, any more than the salesman's problems, the credit man's problems, or the terms, or the procedure for enforcing them.

But the various types of business can learn from each other. The instalment house, its wits sharpened by its unusual credit risk, has worked out ideas that can be adopted by the manufacturer of expensive machinery. The machinery manufacturer, with so few accounts to handle that he requires only part of the time of one man to manage them, finds that this man has almost time enough left to take care of another duty also. Consequently he devises methods that simplify the collection task still further and behold, these

methods may be utilized equally well by the big jobber, who as a result reduces his office force from nineteen to sixteen.

The cost of the collection department is not wholly a matter of salaries and time. Adding an assistant may be cheaper than dropping one, if it produces fewer mistakes and delays. Employing higher-priced help may be an economy. Saving at the spigot and wasting at the bunghole is the very mistake which a capable executive, with a vision of his business as a whole, makes it his care to prevent, and he is entirely willing to spend more money on salaries if he saves the amount twice over in reduced losses from bad debts, or in a lowered sales expense due to a greater volume of repeat orders from satisfied customers.

Wanted—A System that Works

A system that works, that meets the needs of the business at the lowest cost, is what every office wants. Changes in the volume of a business may require a change in system. A well-executed sales and advertising campaign may bring great numbers of new accounts on the books, and preparations should be made to handle them. During the investigations that preceded the writing of the present book, the writer visited an office that was swamped with work, away behind schedule, and reaping a plentiful harvest of complaints. The cause was in part an aggressive sales movement, in part a change in the marketing policy in one territory, where the jobbers had been eliminated. Thousands of accounts had to be cared for in place of a few hundreds for that section of the country, and the credit department was being called on to "grow up" to the situation overnight.

Systems that Fail

An added inconvenience may turn out to be a useless expense. One house adopted a method that required an

extra copying of each account, on the theory that it made reference to the account easier, and acted as a check on the other copies. In practice, however, it turned out that the expense of copying exceeded the saving of time; moreover, the clerks did not keep the new record up to date, which ruined its usefulness. In another instance a new system failed to produce estimated savings, and a recommendation was made that it be discontinued. Analysis showed, however, that all the trouble was due to faulty location of the credit files. These had been so placed that those working with them interfered with the gangway used by certain clerks; they did not like to squeeze past the credit men working at the files, and consequently "soldiered" until the passageway was clear, consuming enough time to pull the entire system down to the point of inefficiency. Relocation of the credit files and a little education of the office force set the wheels moving at the desired speed, and saved the house the amount it had estimated.

System for the Branch Office

A method which works for a centralized business may fail utterly in a decentralized business. The former may require additional mechanism to supply the lack of close contact with customers. A branch manager may know his trade so well that he gets along with half the routine that would be required by the home office in handling the same trade. On the other hand, the branch manager may toil in vain to equal, both in person and with the aid of much routine, results which a real credit genius in the home office may accomplish with little effort, despite his handicap of distance. The force of his personality and his ability to develop an intelligent and loyal staff may be such that his little finger is thicker than his subordinate's loin. One result of this situation, by the way, may be that the chief fails to

realize that methods successful for himself will not avail for others, and consequently permits systems in the branch offices which will not do the work demanded of them. Or on the other hand, he may load down local offices with an excess of routine.

No system exists independent of personality. One man may be able to operate it successfully where another man cannot—and this may imply no reflection on the second man. But in general, the unresting desire for improvement which characterizes the American business man makes him willing to learn from the experience of others and to discard the objection, "My business is different." The analytic mind learns to look through detail at the underlying principle, and then asks, "Can I adapt that principle to my business?" Careful analysis, also, may disclose that the obstructions to a plan can be removed with unexpected ease.

The Common Features of All Systems

Many different types of system are in use, and many houses are getting along very comfortably under an arrangement to which they have become adjusted, without bothering to ask whether it could be improved. Others feel the need of a change, but hesitate to install a method which is not entirely clear to them.

The following sections contain an outline of a few typical systems. It is the observation of the present writer that nothing is more difficult to understand than such systems. He has been told of several instances in which an officer of one house has visited another house, has had the system of that house explained to him in conversation, and has gone away either misunderstanding the actual operation of the routine, or failing to grasp the essential point at issue, and unable to determine whether it would serve his purpose.

Accordingly, at the risk of being over explicit, it has

seemed best to reduce all systems to the elements, and to attempt to hold these elements in mind as the central points about which the details of any system are grouped.

Ten Necessary Operations and the System They Require

It is evident that the items of system in a credit and collection department are brought into being as the result of certain necessary operations.

1. A record must be kept of charges and credits for each customer. This requires a ledger, in either book or card form.

2. When an order is received, the credit man must either pass it for credit, hold it pending investigation, or refuse it. If from an established customer, he will be obliged to look up the present state of the account, and if this is not satisfactory, or if special caution is needed, he must look up credit information obtained from other sources. If the order comes from a new customer, he must secure information as a basis for granting or refusing credit, and must file this information for future reference.

These operations will require either access to the ledger, or to a transcript of all or part of the ledger record, which is kept in a separate file; also a file of credit information, including letters, salesmen's reports, etc.

3. Invoices must be made out in duplicate on shipment of orders, and the duplicate filed. This requires an invoice file.

4. All correspondence from all departments, either originals or copies, relating to the customer, must be filed together under a separate heading, so that a central place exists to which all questions regarding house relations with that customer can be referred. This requires a central correspondence file.

5. When a bill becomes due, that fact must be known at a definite time and the customer notified. This requires regular access to the ledger on the part of someone charged with collection duties, or access to another file containing ledger information.

6. If the bill is not paid within a given time, further steps in collection must be taken at regular intervals in an advancing series. This requires either examination of the ledger at regular intervals, or a maturity file for follow-up purposes, or both.

7. The sales department must be informed of the relation of the customer's indebtedness to his credit limit, and of changes in his credit rating, so as to be guided in selling to him. This requires systematic memoranda to the sales department on doubtful accounts, and memoranda from the sales department to the salesmen.

8. Payments made must be known to the credit man so that he will stop the collection routine and not continue to press for payment of an account already paid. This requires absolute certainty in recording payments instantly in the ledger and in any other file bearing ledger information, and reference to this record before taking the next step in collection.

9. Claims affecting the payment of certain items must likewise be known to the credit man so that he will not press for payment of an account which is in process of adjustment, but will press for payment if the adjustment is refused. This requires systematic memoranda to and from the claim department regarding claims and adjustments.

10. After the preliminary steps in the collection routine have been taken, if payment is not made, it may be necessary to consult the record of account and the file of credit information to guide the judgment of the department as to what steps should next be taken. This requires access to the ledger or other record of account, by the member of the organization to whom these later steps are entrusted.

Six Items of Equipment

It will be seen that the necessities of any system are (1) a ledger, (2) a file of credit information, (3) an invoice file, and (4) a correspondence file. Optional items are (5) a file with a transcript—complete or partial—of ledger information, and (6) a special maturity file. For conducting the follow-up any one of these six may be used, though some are in general preferred to others.

In nearly every organization it is advisable to reduce the earlier steps in collection to a routine which can be carried on by the bookkeeper or a collection clerk, while only the later steps or difficult cases come to the attention of the credit department, which thus has its hands free for matters requiring special judgment. This division of labor must be reduced to a schedule and rigidly maintained, so that the duties of each member of the organization are perfectly clear, and accounts pass from the hands of the bookkeeper at a specified stage in the routine, into the hands of the collection department or the credit department, as the case may be.

The *record of account,* the *follow-up system,* and the *division of labor,* are the three fundamental necessities of any collection system.

Since the problems of collection systems arise in connection with each of the ten operations outlined in the foregoing section, as well as with the six items of equipment just mentioned, they will be taken up in that fashion.

Solving the Big Problems

The thousand variations in system which men work out in practice usually arise in the effort to solve a few chief problems. If you should walk into an up-to-date office and inquire why they do things in a certain way, the chances favor your finding the cause in one of four matters.

First, does the use of the ledger by credit and collection men interfere too much with the bookkeepers or are the ledgers too far away for easy consultation? If so, *another file* must be established for their reference.

Second, can members of the department get along without referring to *several files* each time guidance is sought from the records? In this effort the office may have devised some means of assembling various records in a single book or file, or at least in one place.

Third, in order to care for volume of business, cannot some short cuts be adopted to reduce the *number of times* the files are consulted, without destroying the safeguards surrounding the procedure of collection?

Fourth, since most customers pay without requiring special attention, how can an *inexpensive routine* be adopted to take care of the great majority of accounts, and how much of the whole procedure can be converted into routine; how can we reach that ideal of a routine that cares for nearly every step, but which is constantly supervised and administered by intelligence? This is largely a question of the division of labor between subordinates and superiors, but partly also a question of the wise use of forms.

Incidentally, the danger of the last situation is that all the energy of high-salaried and capable men may be spent with the least profitable and deserving class of trade, while no constructive work is spent on the best class. This limitation on the usefulness of the credit department can be prevented, if the opportunities illustrated in Chapters VII, XIII, XIV, XXVII, and XXVIII, on selling credit, co-operation with the sales department, and constructive credits, are laid hold of.

The Record of Account—The Ledger

The ledger is the final authority on the state of the customer's account. Every care must be taken to make it complete, accurate, and up-to-date. Some of the best credit men

are accustomed to use no other record in handling all credit and collection correspondence. They say that with the ledger before them they know all they need to know, and can interpret at a glance the whole history of the account, and can determine how to treat it. Some even attach tissues of the correspondence to the ledger sheet (see page 327). They point out that the ledger is the original record, and that the more one depends on originals and the less on copies, the less chance of mistakes; for a copy of an original is twice as likely to be wrong, and a copy of a copy is four times as likely to be wrong. The ledger, they say, is the easiest record to keep up to date, for in case a department is crowded with work, the extra copying is apt to be postponed. If several persons need to refer occasionally to the account, perhaps coming from other departments, they can always find the ledger with the least trouble, and should be able to read the whole story there.

Whether or not it is used as the sole record of account, the ledger is the chief record. The top of the sheet should contain credit data, consisting of the credit limit assigned, and the agency ratings. It should be kept so as always to show at a glance the present balance, without figuring credits from debits to find the customer's indebtedness. It may contain space for a star or a check mark to indicate special caution; and space for notes on the customer's habits of payment, whether good pay, slow pay, or poor pay, his attitude toward drafts, etc.

If the follow-up is to be conducted from the ledger, across the top of the sheet may be printed the days of the month, to be marked by a signal tag to show the day on which the account is to receive attention. There will also be a column for notations to indicate what steps in the collection routine have been taken, and the date. Thus S 3/27—R 4/5—DL 4/16— D 4/26 opposite an item would show that a statement had been sent March 27, a reminder April 5, a draft letter—

warning of a draft—April 16, followed by a draft April 26. A series of symbols to fit the procedure of the office is easily established.

The ledger card employed by a house selling goods on the instalment plan is reproduced on page 324 as an example of the special forms required by those houses which have an unusual credit problem.

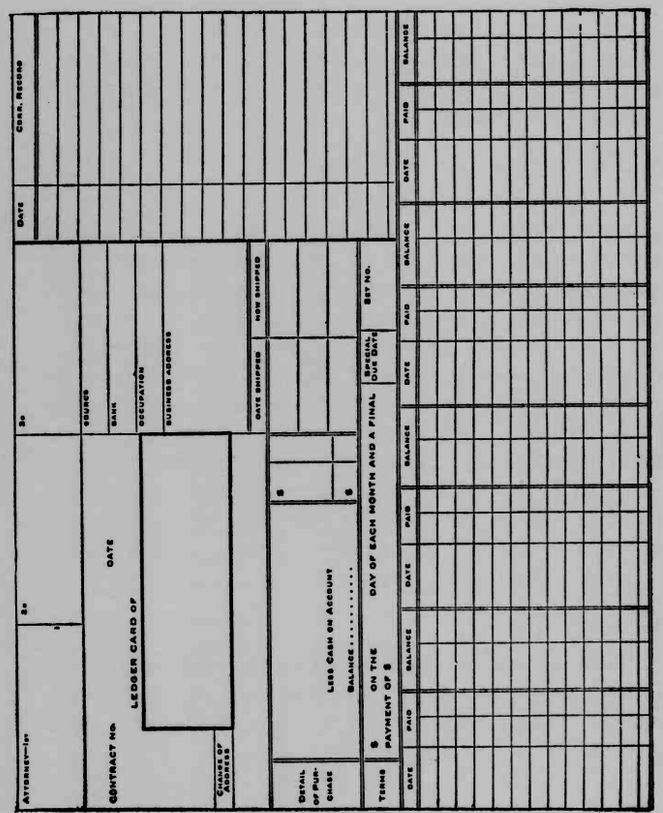
The Record of Account—Collection Cards

For greater convenience the collection record may be transcribed on a card with entries for credit rating, personal experience, etc., and spaces to show the handling of each item on the account. Symbols can be placed in these to indicate the statement, letters, drafts, etc., issued in connection with any item. The follow-up can easily be conducted from this card by having the days of the month printed across the top and a signal tab used to indicate the dates on which attention is next to be given the account. Forms for this purpose will be submitted by any prominent supply house, or special forms can be devised on consultation with the representative of such a house. The collection man with an unusual credit risk and consequently an unusual collection problem, will require more than the ordinary form.

The Credit File

Credit information is commonly kept in a separate file, the folders being preferably of letter size so as to include correspondence from salesmen, from references and from the customer direct, as well as salesmen's reports, etc.

One good form for such a folder contains along the tab the name, address, town, state, and business of the customer, and the name of the salesman. On the face of the folder is a ledger transcript showing agency rating, credit limit, amount sold each month, while on the edge of the folder above this



Ledger Card

Illustrating the recording of instalment payments.

are printed the days of the month for follow-up purposes, though in practice the follow-up is seldom conducted from it. The face of the folder can be used for recording the various items of credit information in spaces labeled for the purpose.

To avoid unnecessary consultation of this file the credit man makes frequent use of the brief credit references on the ledger sheet or the collection card; or provides a special credit card like the sample shown on page 326.

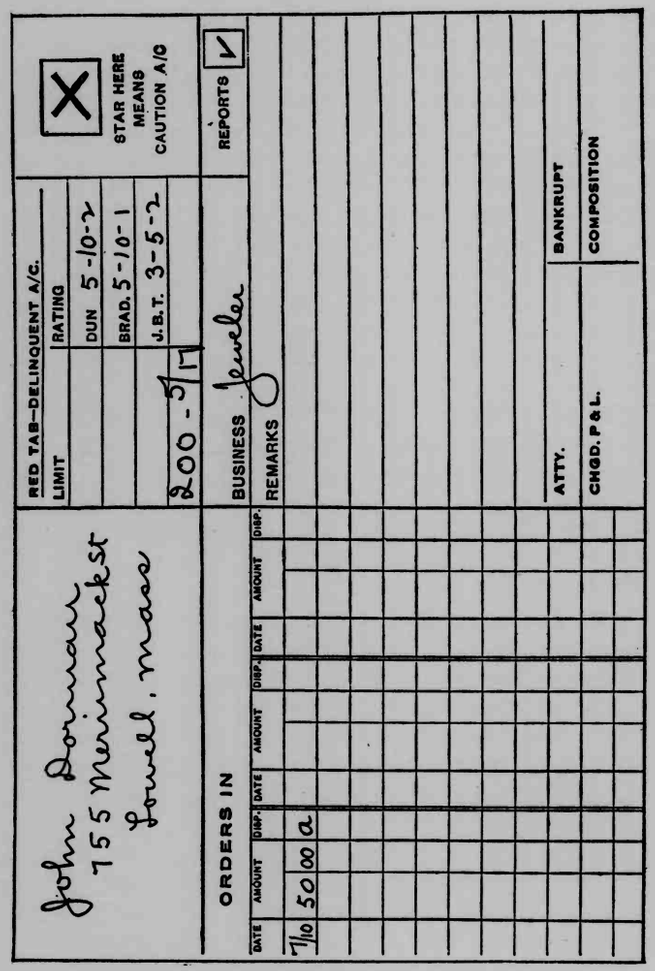
This is especially useful where the volume of accounts is large. Thus many orders can be passed on the salesman's recommendation or from the credit man's general knowledge of the account; others can be passed after reference to the credit card; doubtful accounts will require reference to the complete file of credit information and to the ledger as well; while as a further step special inquiries may be addressed to the agencies, other members of the trade, the credit clearing house, etc. It is common practice, especially with large accounts, for the credit man to spend some time each month in familiarizing himself with the state of his accounts.

The Invoice File

Since the invoice file is a necessary part of the office equipment it is sometimes used for follow-up purposes. Being printed on thin stock, however, the invoices are difficult to handle and when orders are numerous, confusion sometimes results from employing this method. Duplicate invoices, however, struck off at the same time as the original, and placed in a special maturity file or tickler provide an excellent means of follow-up.

The Correspondence File

A small business with few accounts can conceivably use the general correspondence file for follow-up purposes; but even here it is not a desirable method. The collection man



A Convenient Form of Credit Card.

may mark on a slip the number of the customer's folder and the date on which attention is next desired, and file this in his personal tickler; then when the due date has been reached, he hands the slip to a filing clerk who brings out the customer's folder. The collection man then ascertains what step has been taken and decides what letter should next be written. This is, however, a clumsy method, lays a great burden on the filing clerk, and necessitates looking through a mass of correspondence most of which is not pertinent to the credit man's desires. Extra carbon copies of correspondence may be kept in a personal maturity file, when a better method has not been devised. Carbons can be made in triplicate; one goes to the salesman, one to the general correspondence file, and one to the credit man's maturity file, described in the next section.

The credit department's correspondence file will contain a carbon copy of every letter relating to that department. To employ this file for the follow-up it is only necessary to mark in blue pencil on the top of the carbon copy the date when, according to schedule, attention is next to be given the account, and to place the sheet in a folder marked with a division of the alphabet. As will be seen this presupposes that the volume of collection correspondence is small. Each morning a clerk goes through the file taking out the sheets marked for attention on that day. These are brought to the credit man who writes the next letter required and attaches the carbon to the previous sheet, marking it again ten days ahead. Thus, at the time of writing the letter the credit man has under his eye all the correspondence relating to the case.

A Ledger Correspondence Folder

A unique device for showing at a glance the correspondence and the ledger record useful in handling a large volume of accounts, is a ledger correspondence folder used by H. Uehlinger, credit manager for Moller and Schumann, varnish

manufacturers of Brooklyn. This is a blue folder of the size of the ledger sheet and similarly cut. Across the top are printed the days in the month. An opening is cut in the face of the folder. All preliminary credit correspondence of customers is handled by means of numbered forms individually typed. The carbon copy is marked in blue pencil at the top with the key number, and the copy is put in the folder in such a manner that the key number is visible through the opening. The follow-up is conducted by means of tabs at the top of the ledger sheet. Thus when the case comes to the credit man, he sees at a glance the customer's ledger record and the key number of the last letter written. Where special letters have been dictated, the carbon copies are also in the folder. The thin tissues do not bulk largely in the ledger.

The Personal Maturity File

Some form of the personal maturity file or special tickler file is the most generally satisfactory for follow-up purposes in connection with collection correspondence. This may be a file drawer in the collection man's desk containing either one, two, or three sets of folders, each numbered from 1 to 31. At the time of shipment a duplicate invoice is marked with the date on which the invoice next comes up for attention, say ten days ahead, and placed in the folder bearing the number of that day. On each day of the month the collection man takes out the folder numbered for that day, inquires in each case whether payment has been received, writes the letter required, makes notation of that fact on the invoice together with the day on which attention is next required, and places it ahead in the appropriate folder. A good plan is to attach to the invoice a carbon copy of this letter and of all subsequent correspondence until the account is paid.

The tickler memorandum may be a statement or other form of slip, instead of a duplicate invoice.

If the follow-up is conducted by means of a combination of the ledger examination method and the personal maturity-file method, the ledger clerk will go through a portion of the ledgers as part of his daily prescribed routine. When an account is due, he will issue a statement and note this fact opposite the entry in the ledger together with the date. He will continue to issue statements and form letters until, according to the prescribed routine of the department, the case should pass to the hands of the credit man, at which time he may send him a memorandum or a statement or carbon copies of correspondence; this will be placed in the tickler file and treated as above.

The "Master Sheet" Method

A large New York jobber at one time made out a "master sheet" covering the orders of each day. Each line on the sheet contained a space for the invoice number, name and address of the customer, and collection notations. This sheet was then placed in a maturity file and treated like a duplicate invoice, entries being crossed off as fast as payment was made. Thus all invoices requiring attention on the one day came up to the credit man together. Because of its enormous volume of orders, this firm has been obliged to abandon the system, but it still recommends it for houses under normal conditions.

Relation to the Claim Department

Great care must be taken to insure that items being made the subject of claim by the customer are not pressed for collection until disallowed by the claim department. By a regular series of memoranda, this department must keep the credit department informed of progress on these items. Suppose the credit department is following up an account on a ten days' schedule. If an item is in the hands of the claim department, the collection man may note this on the sheet with blue pencil

or attach a special memorandum or paste on a colored sticker. In ten days, when the account is next reached, he may advance it another ten days in the tickler, without inquiring of the claim department, but when the second interval has elapsed, he sends a memo to jog the claim department's memory. When claims are long drawn out and for large amounts, it is sometimes the practice to charge them off the books and against the claim department ledger. The claim department thereafter assumes responsibility for adjustment or collection of the amount; but if after a reasonable time, its efforts are unsuccessful, the charge is re-entered on the customer's account, all papers are transferred to the collection department, and the matter is taken care of by the collection manager. Very small claims are granted by the bookkeeper; claims of medium size are referred to the claim department, but not charged to their ledger.

The Interval Between Steps

The amount of time a collection man allows to elapse between sending out his various statements, letters, etc., will depend on two factors: first, whether the customer is expected to reply immediately on receipt of the letter, and second, what is his distance from the creditor. Small amounts can easily be paid on the same day on which the communication is received; large amounts may require a little more time. The keen and efficient collection man for a well-known publisher, for example, has made up his mind that fifteen days is the proper interval; ten days he has found did not give time for a reply, while eighteen or twenty was so long a time that the customer overlooked the account because he was not reminded often enough. On the other hand, an interval of a week or ten days has great advantage in dividing time into natural periods, thus making the debtor realize the regularity with which he is being followed up, and appealing to his sense of

habit as an aid in payment. It is easier to figure from the 2nd to the 12th of the month or from one Tuesday to the next than to make a mental estimate of any other interval less than a month. Let it not be thought that this point is unimportant; if the debtor can form a definite visual image of the day on which payment is required, this will act as a powerful stimulus. It is better to say "Failing to hear from you by May 15 we will draw," than to say, "Failing to hear from you in ten days we will draw."

A reasonable mailing schedule should be established to cover all points with which a house does business. The following schedule is in use by a New York company having customers in every quarter of the globe.

Mailing Schedule

As the name implies, this schedule is for the purpose of gaging the time necessary for a customer's reply to reach us. If a man lives in New York City it will naturally take less time than if he lives somewhere on the Pacific Coast. For instance, we should expect a reply to any of our forms when sent to a subscriber in the city within five or six days at the utmost; while from a subscriber in San Francisco we should not expect a reply in less than ten days at the minimum.

It is very important that the schedule outlined below be strictly followed and the bills and forms mailed promptly on the dates due. A delay of one or two days with each form equals an entire week at the completion of the series of letters and might mean the delaying of the payment or even in some extreme cases the loss of an account.

The following states are allowed *six days* interval between forms:

Connecticut
Delaware
Illinois
Maine
Maryland
Massachusetts
New Hampshire
New Jersey
New York
Ohio
Pennsylvania
Rhode Island
Vermont
Virginia
Washington, D. C.
West Virginia
Wisconsin

Seven days for Eastern Canada, including Manitoba, Quebec, and Ontario.

Eight days for:

Alabama	Minnesota
Arkansas	Mississippi
Florida	Missouri
Georgia	Nebraska
Indiana	North Carolina
Iowa	North Dakota
Kansas	Oklahoma
Kentucky	South Carolina
Louisiana	South Dakota
Michigan	Tennessee

Nine days for communications to:

Colorado	Texas
Idaho	Utah
Montana	Wyoming
New Mexico	

Ten days for Arizona.

Eleven days for:

California	Nevada
Oregon	Washington

Sixteen days for Mexico.

Twenty days for subscribers in Panama and the Canal Zone.

Twenty-two days for Alaska, Cuba, and Egypt.

Thirty days for Hawaii and the Philippine Islands.

Six weeks for communications to China and Japan.

One essential point always to keep in mind in connection with this schedule is that the Second Request is sent out *two days after* the payment is due in this office and that the subscriber is allowed *two days longer* than the mailing schedule calls for before drawing a draft on him.

Here is a model to be followed for payments due on the first of the month and which have an eight-day interval for follow-ups:

Form	Date Sent
Statement	22nd
2nd request	3rd
1st letter	11th
2nd letter	19th
3rd letter	27th
Draft	6th

All members of the Collection Department should read this schedule carefully so as to become well acquainted with the mailing intervals for the various places where we have customers.

Specifications for Department Routine

Every item in the department routine including the duties of each member of the department should be outlined in detail and placed in a folder of which each member has a copy. If forms are employed, a loose-leaf book of these with an index, showing key number and nature of each letter, should be in the possession of each individual issuing letters. The same is true if a form-paragraph book is used. The outlined routine should be as simple as possible and the duties of each department member recorded on separate sheets so as to be easily grasped.

Schedule for Ledger Examination

The routine adopted by a certain jobber carrying 50,000 live accounts involves the division of ledgers according to territory and the subdivision of each ledger into ten sections. Each day the bookkeeper goes through one of these sections, thus covering his ledgers in ten days.

Ten days before a bill falls due, statement is made out and sent to the customer with a sticker attached, reading, "This bill is only a memorandum. It is *not yet due.*" In ten days, if the account is not yet paid, a second statement is issued with a paster attached. At the end of the third ten days, a statement is made out in red ink and mailed to the credit department where it remains in a tickler file. Notations of each step taken thereafter are made on it and copies of all letters attached to it. A multigraphed letter is sent out as the first collection letter signed by the collection manager in ink, and is followed in ten days by three individually typed forms, the last of which is an attorney letter. Thus in the thirty days, the account has passed to the credit department and in sixty

days has gone to an attorney and has been charged off.

Petty items charged to the claim department are noted on the ledger opposite the account, "C. D.," and the date. A house letter is then written the claim department asking them to make adjustment. On going through the ledger, the bookkeeper makes a special memorandum of such items and brings them to the credit manager. He instructs him to make out a statement covering items not in dispute, and also *writes the customer,* saying the claim department has not adjusted certain items, but asking payment of the balance. This prevents the customer from withholding payment entirely.

Every statement or letter sent the customer is noted opposite the item in the ledger, form letters being shown by their key number, specially dictated letters by the symbol, "L." If an extension is asked, for instance, till August 25, the symbol will read "Ex/8/25" and a copy of the letter granting the extension is set forward to August 26 in the personal maturity file, a day being allowed for receipt of the letter. But the account will come up for attention through ledger examination or through the red ink statement in the maturity file, perhaps on August 11; then reference will be made back to the ledger to see if payment has come in, and this will disclose the fact that an extension has been granted until the 25th. The red ink statement is thereupon destroyed, and no attention is paid the account until the copy of the letter granting the extension comes up for attention on August 26.

A certain manufacturer handling a large number of small sales, at the time the order is received, makes out on the billing machine seven copies of the invoice simultaneously. They consist of (1) a ledger card, (2) a geographical file slip, (3) a label slip which is perforated lengthwise through the center, the upper half only being used as it contains the name and address of the customer, three invoices on (4) white, (5) blue, and (6) pink paper, and (7) a master slip for the collection department. Each copy carries the same invoice number. The ledger card and invoices are filed numerically. The geographical file slip is filed geographically for cross reference purposes. The master slip is filed in a maturity file fifteen days ahead of the date on which the goods are shipped. The original (the white invoice) is sent the day the order is received, irrespective of the shipping date. At the expiration of the fifteen days the master slip is compared with the ledger card, and if the account is unpaid a reminder sticker is attached to the blue invoice and this is sent to the customer, the master slip being filed ahead fifteen days. In another fifteen days, if the account has not been paid, the pink invoice with the second reminder sticker is issued, and fifteen days later, if still unpaid, a form letter individually typed is issued with a statement. If not paid other forms follow at fifteen-day intervals, each noted on the master slip. At the expiration of ninety days the account is charged to profit and loss and referred to a collection agency. If subsequently paid it is recovered from the profit and loss account.

Avoiding Unnecessary Communications

Every effort should be made to avoid needless interdepartment communication, but rather to analyze precisely what system is necessary, to establish this in written form, and to maintain it rigidly. When payment is made by check, whether in the wholesale or the retail business, it is usually unnecessary to send a receipt. A voucher check may be employed by the person making payment; or the seller may issue as part of the invoice a stub to be detached and retained by the customer as evidence of payment. It is frequently good practice to print at the foot of statement or invoice a sentence like the following, "In accordance with a growing commercial practice, where payment is made by check, a receipt will not be sent."

CHAPTER XXX

COLLECTING MAIL-ORDER ACCOUNTS

Special Collection Programs

It is said that our Government has been disappointed in its attempt to reduce the high cost of living through the delivery of farm produce by parcel post direct from the grower's field to the consumer's table because of the collection difficulties involved. It is certainly true that many growers have given up their plan of direct shipment on this account.

Here is a most spectacular instance of one of the principles laid down at the beginning of this book; namely, that for every novel marketing plan a credit and collection program must be prepared with as much skill and knowledge of principles as has been used in formulating the sales plan.

It is true that "most people are honest." But it is also true that many people are careless and that the average man or woman has so many things in mind that small obligations out of the usual routine are easily disregarded. Most people are honest; but if you wish to sell them goods, be careful to investigate their credit responsibility, to "sell them credit" by making a definite impression on their minds at the time of sale as to the nature of the obligation they have undertaken; follow up collections promptly and regularly; and base your collection appeals on a careful study of their psychology.

A Thirty-day Trial of a Razor

When in the spring of 1916 you walked into your local drug store to buy a package of tooth-paste you were astounded to have the druggist say to you "By the way, take home one

of these Auto-Strop Safety Razors and try it for thirty days. It won't cost you anything and if you don't like it you can return it." "What do you mean?" you not unnaturally exclaimed. "You couldn't sell that razor again after I returned it." "I'll take my chances on that," replied the druggist, "and the company stands right behind me. They believe they have absolutely the best safety razor on the market. They have overcome every possible objection to it; and they are so confident it will give satisfaction that they have authorized me to offer it to you under these terms."

Perhaps you took the razor; perhaps you laughed and said you were afraid to risk it, and then you may have noticed that the druggist dropped the conversation at once. At any rate, it appears from the accounts of druggists, that a good many thousand men in the United States carried the razor home and kept it and spread their faith in it to other shavers.

The plan is said to have originated in the marketing genius of Bevan Lawson, at present marketing manager for the Squibb Pharmaceutical Company. Dealers had long believed in the razor, but consumers took only a languid interest. When the trial plan was adopted dealers were instructed not to force sales; the managers of one chain of drug stores, who wanted at first to give a bonus for every razor placed in the hands of a customer, were emphatically refused. The druggist usually knows his customer and can select a good credit risk. In the great majority of instances the razor returned *had the seal unbroken,* showing how carefully the buyer had considered his credit obligation. The sales of the company are said to have increased enormously and their advertising still features the trial offer.

Selling Fish on Credit

There is hardly a magazine reader in the United States who has not been impressed with the advertising of the Frank

E. Davis Company of Gloucester, Mass. Through the courtesy of officers of the company, the writer is enabled to tell the story of the safe-guards thrown around their extraordinary offers.

From the advertising, which is of a bright, attractive character appealing strongly to people of refinement whether their means are large or small, the reader gains the impression that he can send cash with his order without fear of disappointment; but if he prefers the convenience of a charge account and can give satisfactory references, he may pay by the month. Now, bear in mind that the local fish dealer, butcher, or grocer has plenty of trouble in collecting from these same customers. How can collection be made successfully by a "fish man" a thousand miles away?

To begin with, the goods are constantly "resold" to the customer. The company thinks he is resold every time he has their mackerel for breakfast. If his stock has run out it is only a few weeks before a tantalizing letter or circular is received from Gloucester, and the man of the house exclaims, "My goodness, Maria, let's order another pail of mackerel. And by the way," he may add, "I must send them a check for their last bill. They sent me a reminder the other day."

The company's own account of their operations should increase any purchaser's confidence in doing business with them.

"In the first place," they say, "our customers are circularized from lists which are supposed to give only the names of financially responsible people. Our order blanks, which go out with the circulars, stipulate that charge accounts will be opened only if suitable references are furnished. When references are not given and from the appearance of the order it looks as if the prospective customer were not a good credit risk, he is looked up in Dun's, in the Bankers' Directory, and in the various other rating books, and if he is not given in

any of these, a report is procured from some reporting agency or bank. If the report is favorable, the order is shipped; if not, the customer is asked to send cash in advance to cover the amount of his order.

"Last October we began a new system of advertising in several magazines, offering to send a trial pail of mackerel or box of codfish on ten days' approval if the prospect would give bank or business references. If the references given are good, the order is shipped at once. If the references given look questionable, the order is carefully studied. Stationery, address, handwriting, in fact, everything that will help us determine the person's responsibility, are taken into consideration. If the order does not look promising, we write to a reporting agency or bank for a report, or, if the order looks very bad, direct to the person ordering for cash. In cases where no reference is given the following form letter is sent.

Dear Sir:

You are going to be mighty well pleased with the pail of salt mackerel from Gloucester. For the fish are some of the finest I've ever seen—anybody who likes salt water fish can't very well help being delighted with them.

When you sent in the coupon in response to my advertisement, you omitted to give your business connection or reference. Probably you didn't notice it. It's such a little thing to do, however, that I feel sure you won't mind accommodating me by filling it in on this sheet.

Then return this letter in the enclosed envelope, and the pail of mackerel that I've had packed for you will be on its way soon.

Very truly yours,

"We cannot yet tell definitely how this plan is going to work out but when these accounts were checked up in February, we found that only about 7% were then unpaid, many of which were not yet due.

"From 3% to 1½% of our surplus has been reserved to

cover the loss from bad bills. Last year, however, it seemed that 1% would be more than enough to cover this loss for the coming year.

"Our accounts are handled by the card system and are filed chronologically by weeks. The regular, or thirty-day accounts, receive a statement and form letter—thirty days from the date of shipment, if shipped by express, and sixty days from date of shipment, if shipped by freight. The ten-day accounts, or memo invoices, as we call the special mackerel and codfish accounts, are followed up ten days from date of shipment—though now, taking into consideration the congested condition of all the railroads, we have found it advisable to allow twenty days.

"*The first letter* reads as follows:

Dear Sir:

There are a good many things on our list that you haven't tried yet. We hope that you are so well pleased with the shipment sent you recently that you'll let us make you acquainted with some of our other products.

Your order needn't necessarily be a large one. Just list the things that appeal to you on the enclosed order blank and we'll be glad to give it our prompt and careful attention.

Probably you will also want to send us a check for your previous account, so we are enclosing a statement.

Yours very truly,

"*The second letter* goes out two weeks from the date the first one is sent.

Dear Sir:

Your account being still unpaid, we are wondering why you are withholding remittance.

This being your first shipment of goods from us, we are hoping you are thoroughly satisfied as we want you to become a regular customer. Perhaps you have not had time to use all the goods, but doubtless you have satisfied yourself as to the general quality of our products. Even after paying the bill, if you have any complaint, we will be perfectly willing to make adjustment.

By this time you must be wanting some more of our goods, so send us your order when remitting and we will be very glad to fill it on our usual terms.

Yours very truly,

"*A second letter* to old customers is as follows:

Dear Sir:

Statement of your account was sent you a few days ago, but we have heard nothing from you. Doubtless the matter has been overlooked, and we would not bring it up again so soon, if we knew that to be so. However it may be that something in this last order has displeased you. If so, we would like to hear from you at once so as to make satisfactory adjustment.

If you want more of our goods, send us your order when remitting, and it will be promptly and carefully filled.

Yours very truly,

"*The third letter* is sent if the account is still unpaid two weeks from the date of the second.

Dear Sir:

Your account, while not greatly overdue, has gone beyond the 30 days we allow our customers.

We have written you twice in reference to it, and you have not yet given us your reason for withholding remittance. We understand that it is easy to neglect a small bill and that sometimes circumstances prevent prompt payment, but we would like to have you write us anyway. If anything is wrong with the goods, we want to know at once. If not, we would be glad to receive the amount due us as soon as possible.

Yours very truly,

"The account then rests two weeks. Then two or three personal letters are written at close intervals and if these do not work, a Merchant's Credit Guide form or a National Trade Exchange 10-days' notice is sent, which usually brings the desired results. Only as a last resort is an account turned over to an attorney or collection agency and we are glad to say that we do not find it necessary to have many of our accounts collected in this way."

A Triumph for Resale Principles

The old-fashioned credit man would as soon think of opening the window and walking out in mid-air as of carrying out a marketing plan like that of this seller of fish from Gloucester. Without a knowledge of resale principles, it would be impossible; but with that knowledge, the marketing manager walks not on thin air but on a scientific knowledge of the principles of human nature, tested and proved in the crucible of experience.

CHAPTER XXXI

COLLECTING MAIL-ORDER ACCOUNTS—AN UNUSUAL CREDIT RISK

Goods Sent on Approval

The man who sends you cigars by mail and lets you sample a handful before deciding whether you will pay him or not is taking chances with your honesty—or perhaps that is the way you feel about it. You know, however, that he has means of his own for being satisfied as to your reliability before shipping his goods. If his cigars are satisfactory, you are willing to go right on paying for them, in order to get regular shipments.

One such company several years ago prepared a series of twelve letters to form the stages of its collection campaign. It is doubtful if the company has improved on them, despite the various alterations they have passed through since that time.

The first letter assumes an oversight and resells the goods at the same time that it asks for a new order.

Dear Sir:

With business doing flip-flops, and the air full of war-talk and uncertainty, it's natural to overlook so small a thing as the amount of $..... due.

This is truly a thinking time—and how can a man think better or more clearly than after selecting and lighting a rich-flavored, mellow cigar.

If you've reached the bottom row in your last box, the enclosed envelope is just in time to bring back an order for a fresh box and your check for $.....

Yours very truly,

The second letter drops the resale suggestion and concentrates on a request for action.

Dear Sir:

Up to this morning's mail, I had been expecting your remittance for $..... to apply on the amount due on your account.

I note that two reminders of it have gone to you but perhaps they failed to reach you.

Just pin a check or a money order to the enclosed statement and drop it in the mail tonight. You may use the envelope enclosed for the purpose; but please attend to it before you forget it.

Yours very truly,

The third letter refers to some item relating to the customer that makes the letter more personal; asks for co-operation, and contains suggestive appeals to pride and fair play.

Dear Sir:

As ..... (position)* of the ..... Company, you, of course, know that it is necessary to "jog" a man about his accounts occasionally. Most of us do—but we'd all rather not.

We'd rather, of course, put all our time and effort into improving our service and spreading the fame of any one of a dozen of our pet brands.

I started to write you about your account. It was understood, you know, that we might count on your check within ..... (terms). We particularly want your co-operation in keeping it within the limit. I find that $..... is needed now to square the account up to the present time.

The envelope enclosed will serve to bring me your check.

Yours very truly,

The fourth letter is shorter and contains another strong "co-operation" appeal.

Dear Sir:

You have been so good about co-operating with us in the past, that I feel we may rely upon you now to help us maintain your standard of payments on your account.

*To be filled in from customer's information card.

Prompt remittances help us to give the very best measure of practical service to you and to others.

If you will let me have your check, then, to cover the ..... bill which amounts to $....., you will be helping very materially to the end we are aiming for.

I am counting on your continued aid.

Yours very truly,

The fifth letter tries the effect of an appeal to the desire to succeed, coupled with an attempt to arouse the sense of shame.

Dear Sir:

A man who pays an old account proves his own ability to overcome a handicap.

But as long as you do nothing toward the payment of such a past-due obligation, you confess to yourself, and to those who know you, a serious weakness.

Let's help you to clean the slate. A small payment weekly or monthly will gradually overcome the handicap and unless you make some such effort to recover ground, you cannot hope to win.

Why not start today?

Yours very truly,

The sixth letter offers an instalment payment plan and asks as a measure of fair play that the customer continue to buy cigars from the man who has treated him so squarely.

Dear Sir:

Simply as a reminder of your indebtedness to us, I enclose a statement of your account now long overdue.

If you cannot fully dispose of this small amount just now, send us something on the account each week or each month—say, $1 at a time.

I appreciate the fact that any number of things might come up unexpectedly to interfere with your payment plans. That's why I want to make it as easy as possible for you to take care of your account and at the same time, feel free to continue sending me your orders.

About your present purchase—you are doubtless buying cigars somewhere. Why not from me? I feel that I am entitled to your patronage. Don't you?

I have every confidence in you and in your sincere wish to meet

me half way. That is why I shall look for a definite confirmation of the plan I suggest.

Don't forget the order when you write.

Yours very truly,

The seventh letter makes a frank, straight-from-the-shoulder appeal, omitting any resale element.

Dear Sir:

A glance at the date of the attached statement will make you realize how long your account with us has been neglected.

Put yourself in my shoes. As a fair-minded man, you will admit that I have shown you every possible consideration in this matter. In a sincere, straight-from-the-shoulder way, I have written you about your account time and time again, hoping that each letter would be the last one needed to bring response.

I want to retain your friendship and good-will, but I feel that some of the effort to do so should come from you.

Let's put an end to all this uncertainty. Meet me half way in this effort to re-establish cordial relations. A letter of explanation or a check for $..... from you is all that is needed. Please do not disappoint me this time.

Yours very truly,

The eighth letter begins by representing that the account has passed from the hands of a subordinate into the hands of a superior officer. He offers one more chance for an explanation.

Dear Sir:

A memorandum showing how you have neglected your account with us, amounting to $..... was placed on my desk this morning together with the folder containing your correspondence and all the orders you have sent us so far.

Everything about our past relations has inspired confidence in your integrity and your ability to pay the amount as agreed upon for goods ordered.

There must be some change in your circumstances about which I have not been told, for I cannot otherwise understand why you have permitted your account to go so long unpaid.

I feel that if there is an explanation to be made, I am entitled to have it and I'm writing you now with the one purpose in view

of asking you for an explanation and a definite idea of what we may expect from you, and when, or for your check for $.....

I shall expect your reply in the envelope enclosed.

Yours very truly,

The ninth letter reminds the smoker of the values he is losing by not being in a position to order more cigars; the letter presents in a new form appeals to fair play.

Dear Sir:

You have not replied to a long series of letters and reminders of a balance due us on your account, although every one of them called for and deserved a response.

I don't want you to feel that we are in any way treating you unfairly in expecting you to reply promptly to our letters telling us definitely what we may expect from you. Our attitude toward you has, from the start, been one of consideration and I am glad to say that we are always anxious to maintain that attitude.

We want to make it possible for you to continue to get the benefit of our "factory to smoker" quality and prices. They are worth just as much to you as they are to a great many others. At the same time, I do not feel that I need hesitate about asking you to say now what you expect to do about taking care of the payments.

Please write me frankly. Give me a chance to co-operate with you on some plan to dispose of the matter without further waiting.

Yours very truly,

The tenth letter demands an answer and seeks to arouse the debtor's sense of shame by its introductory request, "Please do not postpone longer a definite reply," and by the sentence which shows how easy it is for the smoker to write at least a letter of explanation.

Dear Sir:

Please do not postpone longer a definite reply to our numerous letters and reminders of the amount due on your account with us.

You may have valid reasons for your failure to make payments as agreed. Whatever they are, we are entitled to know them. We are always ready and willing to make reasonable allowance for unusual circumstances—even to the extent of granting further credit

or reducing the amount due by small payments weekly or monthly, if necessary—but we must know the facts.

It is so very easy for you to write a letter to explain your apparent neglect, that the least we shall expect from you is such an explanation of your silence and delay.

We cannot afford to continue longer this one-sided correspondence. The explanation of your silence is, therefore, expected.

I must ask that you let me hear from you at once. The amount now due is $.....

Yours very truly,

The eleventh letter is a novel device to secure attention and to appeal to the savings instinct at the same time. It offers the customer 50 per cent of the amount due if he will pay the balance. The action is put on consistent grounds. The entire business, says the letter, is founded on good faith and friendship, and the company prefers to keep it on that basis.

Dear Sir:

If this business of ours wasn't different—if we hadn't unlimited faith in the certainty of a square deal from every one of our customers, I should be turning your account over to a collection agency about now.

I'd have to give them 50 per cent of the amount collected and I should almost certainly lose you as a customer because of the methods such people employ.

Well, I'm not going to give 50 per cent of what you owe me to any such agency. Neither do I want to lose your friendship and good-will.

I don't know *why* you haven't sent me what you owe but whatever the reason, it must be a good one. Nevertheless, I've decided to make you this proposition: Pay me 50% of the amount of the attached statement and keep the other 50% for yourself. If there is any fairer offer I can make, I don't know what it is.

As soon as I get your check for half the amount you owe me, I shall credit your account with the other half too—I'll send you a receipt in full.

Enclose a check for your 50% before I have a chance to change my mind.

Yours very truly,

The twelfth (last) letter is interesting despite the many valid reasons which can be urged against it. It is nothing more nor less than a free gift to the customer of the amount of his bill. It is more than possible that a man so treated might "try it again" under a different name, or get one of his friends to make the attempt in the hope of getting cigars for nothing. Instalment and mail-order houses are nearly agreed that it is not worth while to retain the good-will of a customer whose account has been seriously delinquent. Under no circumstances would they sell such a customer again. Moreover, they claim, there is always the chance that a delinquent account may be collected, even after it has been charged off the books, so that to give up one's right in the account would mean a very real possibility of money loss besides encouraging the dishonest purchaser to attempt to secure goods without paying full price for them.

Dear Sir:

For a good many years past, I have been dealing through the mails with thousands and thousands of men all over this country.

My experience has proved to me not once, but almost invariably that most men—over 99½%—are honest. They carry out their agreements—pay their debts.

The amount of $..... which has been due us from you since ....., and about which I have written you a dozen times, is a just debt for cigars ordered by you and delivered to and consumed by you. There is only one thing left for me to do. I have told you why I do not feel that I care to place this account in the hands of an attorney or follow any one of a number of disagreeable procedures which would be the usual practice.

I am simply going to assume that you are right and I am wrong—that for some reason, unknown to me, you have satisfied your own sense of what is just and that you really are convinced that you do not owe me for the cigars shipped.

Having reached this conclusion, I enclose with this letter a receipt in full for the amount of your account. You may consider, then, that this is my last letter to you and that the account is closed.

Yours very truly,

Criticism of the Series

In judging the merit of the preceding chain of letters, it must be remembered that the credit hold on the customer was exceedingly slight and that since the company secured the names of most of its new customers through the recommendation of satisfied customers, the retention of good-will was important to their business. Resale material and appeals to good-will were therefore adopted as the chief elements of the collection theory. It is probable, however, that more "teeth" could have been put into the series without injuring it. Moreover, there is considerable similarity in the tone of several of the letters; perhaps more use could have been made of the principle of surprise. (See page 177.)

CHAPTER XXXII

INSTALMENT COLLECTIONS—CORRESPONDENCE COURSES

Credit Risks Under the Instalment Plan

A firm doing an instalment business has determined on that merchandising plan as the best method for disposing of the goods. The heavy credit risks involved, the necessity for carrying a great number of relatively small accounts for a considerable period, the labor and expense of collecting, all have been estimated in advance, and have been accepted as necessary parts of the merchandising plan.

One or two reasons for undertaking an instalment business are pertinent to the purpose of this book. It is adopted as the means of sale because it extends the market of the seller. A house of high prestige, which has been selling by other methods, may be convinced that a new and large class of purchasers can be reached by adopting the instalment plan on some or all of its lines. Another house may have possible customers eager to buy its goods, but unable to pay for them, whether they be necessities or luxuries, in a lump sum.

The day has passed when buying goods on the instalment plan was a term of reproach. The success of the movies, the five and ten cent stores, and other similar enterprises has taught us the vast market which lies at the door of the seller who can supply values for small payment. It is therefore the part of the wise merchandiser, in his survey of his goods and the market for them, to determine also whether a plan of instalment selling cannot profitably be added to his present operations.

In adopting such a course the advice and services of the collection and credit managers are vital. Trained to estimate credit risks, skilled in methods of educating salesmen and customers into habits of reliability, they are important strategists in planning the campaign which is to move forward into new territory, and in carrying it forward with a minimum of loss.

Any house which enters an instalment plan for sale without thorough canvass and preparation in the departments of credit and collection is headed for disaster. On the other hand, any house which makes use of the experience of the capable leaders in this field, can, under proper conditions, carry through an instalment plan with success.

Correspondence School Collections

The principle of continual resale lies behind the success of the correspondence schools which sell to their subscribers not only a set of books to be paid for on the instalment plan, but sell also the service consisting of lectures, assignments, etc., each one of which is so prepared as to encourage the subscriber to continue his work in the course.

The collection department of one such organization has two divisions, the collection division and the credit division. The first handles all good accounts and a considerable part of the routine of the second. If a subscriber falls behind in his payments, he is considered good for two months—if he is on a six-day mailing schedule. If he makes a payment, he is reinstated. If he again becomes delinquent after three reminders, his account is put on probation. All delinquent and probation accounts and all correspondence from subscribers in connection with good accounts are handled by the credit division. As soon as an account comes to the credit division from the collection division, reports and information are obtained at once from every possible quarter. Salesmen are

written to and local attorneys consulted. All this is in addition to the reports made by the salesman at the time of sale.

The attitude of the company is distinctly personal with each customer; each case is treated on its merits and good-will is safeguarded by unusual leniency. Cancellations are never allowed because the company's contract forces it to pay out money at once for books, service, etc.

Every letter works for a reply as well as for a payment in order to increase the personal touch with the customer. The usual reasons given for non-payment are, that the subscriber has no time to read the course, he has no money, he has been ill, he is out of a job, he has suffered an accident, he is dissatisfied; or he gives evidence of having lost his ambition. The company may suggest a reduction in the payment schedule, or a brief extension of time. It urges that he is bound for his own sake as well as the dealer's, to live up to his contract, *"Every letter that we write,"* says the credit manager, *"is a selling letter."*

This company has found it advisable to use a letter of the type described on page 216 over the signature of the treasurer. It also employs its own collection agency. A reference to an attorney has been found inexpedient because it destroys good-will. It is used, however, when no answer is received, or when the customer is defiant, avows his intention to revoke his contract, or break his promises.

Certain interesting points in the collection procedure are worthy of note. The company's acknowledgment of the initial payment and the letter describing the terms of payment, both take occasion to resell the course and the credit obligations. A printed folder containing a fresh and interesting example of the value some subscriber has found in the course is mailed with every bill and with all reminders. This is remarkably effective in maintaining promptness in good customers. If any payment from a subscriber is accompanied by a letter,

acknowledgment is made in a letter which contains a newsy paragraph of resale material.

A printed form is used for a second reminder:

Dear Sir:

Just a reminder that the current payment of $..... on your account is overdue.

Don't bother to explain; we know how these things get by. Please attach your remittance to the stub and send it along today.

Cordially yours,

If you have already remitted by the time this reaches you, please disregard this reminder.

The stub contains the sentence:

Please tear off this stub and return it with your remittance; it will facilitate the proper crediting of your account.

When an account is giving trouble, a special letter is sent the subscriber from the service department, reselling the course, but making no reference to the overdue account.

Typical letters employed by this company are the following. Their breezy, cordial style suggests action and prevents offense.

"Spring cleaning" letter:

Dear Sir:

"Spring cleaning" is not just a matter of household routine. It's an annual, nationwide movement to clean up everything—the house, the office, the city.

In harmony with this spirit, you want to "clean up" the $..... on this month's fee.

It won't be necessary to write a letter. Just pin your check to the statement enclosed and send it along in the envelope within.

Yours very truly,

"Do the first thing first" letter:

Dear Sir:

A busy editor was asked recently how he managed to carry on an extensive correspondence, write several thousand words a day, and then deliver a talk in the evening. His answer suggests a good plan for everyone. It was this: "I do the first thing first, and then keep right on doing."

Why not begin "doing" today by writing your check for $..... to cover the current payment on your enrolment fee?

The envelope enclosed is at your service.

Very truly yours,

"Bank draft" letter No. 1:

Dear Sir:

Unless you remind a man pretty often when a remittance is overdue, the next payment date comes around before he knows it. Then there are two payments to make at one time.

Take your own case, for example. Five reminders have already been sent you of the past-due payments. Up to this morning no response has been received from you in answer to any one of them.

No doubt you have either been too busy to attend to it before this or you may have been out of town. So as to make it as easy for you as possible to bring your account up to date, however, we shall deposit a draft for $..... in your local bank to cover the ..... and ..... fees, unless your remittance or instructions not to draw reach us by return mail.

Yours very truly,

"Bank draft" letter No. 2:

Dear Sir:

Inasmuch as we have not heard from you in reply to our letter of ....., we take it for granted that you want us to draw upon you through your local bank.

Accordingly, we have today drawn a draft on your bank for $..... covering the ..... fee. The bank will notify you when the draft arrives.

If for any reason, you prefer to remit direct, a return envelope is enclosed for your convenience in doing so.

Yours very truly,

"Unpaid draft" letter:

Dear Sir:

Needless to say, we are surprised to find that our recent draft for $.... to cover the past-due payment on the enrolment fee is still unpaid.

Either the bank has been very slow in reporting the collection to us, or you refused the draft.

If you paid the draft, we shall appreciate very much your writing and telling us when the draft was presented, so that we may be in a position to follow up the bank. If, on the other hand, you refused the draft we must ask you to send us a check for $..... at once, to bring your account up to date.

Please write us today.

Yours very truly,

"Keep your promise" letter:

Dear Sir:

This is to remind you of the promise contained in your letter of ..... to pay us $..... a month after ..... for the accumulated balance on your enrolment fee.

Please do not disappoint me; but place your check for $..... in the envelope enclosed and see that it is mailed promptly. I am counting on you to keep your promise.

Sincerely yours,

The customer has asked to be released from his contract, pleading special circumstances. The treasurer replies:

The treasurer's letter No. 1:

Dear Sir:

I can readily appreciate that under the circumstances you mention there are many demands on your pocketbook and that it will mean a good deal of a sacrifice to maintain the regular tuition payments due to us.

It is natural perhaps that in thinking of retrenching, the first thing you hit upon is the monthly payment of $..... due on the Course.

But right there, Mr. ....., is where you make a serious mistake.

When you stop to think about it, the ..... Course if ever needed is needed now; it fortifies you against just such circumstances as you describe.

Rightly and persistently followed it will gradually broaden and deepen your knowledge of the essentials of business and put into your hands the equipment of tools by which you can carve out a niche for yourself that no one can crowd you out of.

It would certainly be short-sighted on your part, now of all times, to stop in your time of need and literally kick out from under your feet the ladder by which you will be able to climb to better things.

I know how you feel about gradually getting behind on payments, and I am glad you wrote to me as you did, because we can get together and arrange matters so that you may yet keep in good standing with us.

Suppose you tell me how much you can send each month from now on, without undue strain on your resources. Then I shall try to meet you half-way and we can continue as before to our mutual advantage.

I can promise to do almost anything in the way of an adjustment of terms to your present condition, except allow a cancellation. Don't ask me to do that, for the contract expressly forbids it.

Think this matter over in the light in which I have presented it to you, and you will agree with me I am sure.

I shall expect to hear from you by return mail in order that I may make the arrangements necessary for taking care of this matter.

Sincerely yours,

The treasurer's letter No. 2:

Dear Sir:

When I told you in answer to your recent letter that we could not release you from the enrolment entirely, I took the trouble to explain that we are ready to arrange any reasonable plan to take care of the future payments on the fee and to insure your use of the Course. I asked you to say definitely and frankly what the situation was, so that we might know what to count on.

So far you have not even acknowledged that letter.

It is, of course, impossible for us to appreciate fully the conditions under which you are working unless you tell us. Inasmuch as you have asked a very great favor, and inasmuch as we have expressed our willingness to do everything possible, short of a cancellation, to aid you, the least we may expect in return is a prompt statement of the facts.

Please do not ask us to wait longer for this statement if you want any further consideration extended to you. Use the enclosed envelope and write today.

Sincerely yours,

The "reason why" letter:

Dear Sir:

There must be a reason why you have not sent us the payments on the enrolment fee.

What is it?

If you have been out of town, that would explain your silence in response to our letters and reminders. If you have been hard pressed financially, that would also explain matters.

But you haven't written, and we do not know what to think. We can offer no basis on which to meet you half-way to overcome the difficulties until you take us into your confidence.

We do not want to annoy you with a lot of letters about these comparatively small payments. We do think, however, that we are entitled to what is justly due us, and we feel that our letters deserve better attention from you than they have been getting.

When you answer this, enclose a check for $..... which will put your account in good standing.

Let's get together right now to make our future relations cordial and mutually satisfactory.

Sincerely yours,

"Business tools" letter:

Dear Sir:

What would you think of a man who had paid all but $..... on an equipment of business tools which, if rightly used, should be helping him to double or triple the amount of his present income? What would you think of a man who is willing to give up his right to use such an equipment, perhaps, because of non-payment of so small an amount as $.....

Isn't this your case? Here you are with only ..... more payments to make on your enrolment to own the right to it, free and clear without any further obligation. Why mar the enjoyment and practical usefulness of information that may well be considered priceless to you, simply because you owe something on it?

You are not doing justice either to yourself or to us. We accepted your enrolment on a strictly "pay when due" basis. We trust you. Show us then that our faith has not been misplaced.

$..... will take away any further excuse for bothering you about payments.

Sincerely yours,

"Fair treatment" letter:

Dear Sir:

Please tell me just what your reasons are for not making the payments on your enrolment for the ..... Course as agreed. Surely you have not intentionally neglected them. There must be some good reason why we haven't heard from you for such a long time.

When you enrolled, you in turn obligated yourself to send us $..... each month, commencing ..... You have made no payments since.

This is hardly fair treatment, especially in view of the fact that we have, to the best of our belief, fully performed our part of this mutual contract.

We always try to accommodate our subscribers when we know the facts, but there has already been too long a delay in payments due us and you have made no effort to explain it. Please send me a check for at least part of the amount, in the envelope enclosed.

I can arrange for you to start again making regular monthly payments from now on if you can give me assurance that you will do your part. This offer will not be held open indefinitely. Unless we hear from you by return mail we shall be justified in taking more aggressive action.

Sincerely yours,

"Entitled to an acknowledgment" letter:

Dear Sir:

You have not acknowledged receipt of my letter of ..... although it asked for and deserved a response.

I feel that we are entitled to an acknowledgment from you at least. The fact that none has been forthcoming from you is, no doubt, due to a good reason, if we only knew it.

Please answer this letter promptly. Let me know what plan you have to offer for taking care of the balance of your account, in the most convenient way for you. Further accommodation in the matter is dependent on a prompt reply from you, however.

Sincerely yours,

The president's letter:

Dear Sir:

Since your payment of $..... on ....., Mr. Williams tells me that there has been no reduction of the balance of

your enrolment fee, which at the present time is $..... in arrears.

Because I like to keep in touch with subscribers, I have personally looked up the facts in vour case, with a view of getting at the real cause of the trouble.

We have tried to settle your indebtedness to us again and again. We have waited patiently for you to come forward with some reasonable proposition. But you have not met us half-way.

We feel that a further continuation on this basis would be neither good business nor good sense. If we do not hear from you in response to this letter we shall turn the account over to a collection agency. This statement is not intended as a threat but simply to get all the facts before you.

Before taking this action we feel that perhaps there is something to be said on your side. You may have cause for complaint against us. There may be some good personal reason for your attitude that you have not cared to reveal. If there is anything to be said I should like very much to hear from you. I assure you that I shall read your letter in a spirit of fairness. Are you willing to write in the same spirit?

We are as anxious as you are for a friendly settlement of this account. Such a settlement is still possible if you feel the same way but it must be made without further delay.

May I count on hearing from you promptly?

Sincerely yours,

.....

PRESIDENT

"Credit reputation" letter:

Dear Sir:

When you ask credit of your local bank, you expect to meet your notes promptly on the day they fall due. You can't afford to do otherwise, if you care anything for your credit reputation.

When you enrolled for the ..... Course you accepted a definite credit accommodation which we were willing to extend on your promise to fulfil your obligations promptly at the time set.

We have written you repeatedly since you enrolled. We look to you for the fulfilment of your part of the agreement at once.

The time has come now when we must ask that you take the necessary action to reduce the balance on your account. $..... is now due.

Sincerely yours,

"Immediate attention" letter:

Dear Sir:

Your account requires special and immediate attention. You have neglected it so badly that we must insist upon prompt action.

Your last payment arrived ..... $..... is now overdue. We have not even had a reasonable explanation or partial payment.

You can't expect us to carry the account indefinitely. We can't afford to continue a one-sided correspondence. Unless we hear from you at once, we shall be obliged to turn the account over without further delay to our local collection representative.

Please do not ask for more time, but send your remittance now in the envelope enclosed. Get started right this month.

Sincerely yours,

Registered letter follow-up:

Dear Sir:

No reply has been received to my registered letter of ...., although I know it reached you for we have in our possession a post-office receipt bearing your signature.

Unless you are willing to respond more promptly to our letters in which we have endeavored to co-operate with you on a plan for taking care of the payments, we shall have to cease further efforts in your behalf and just simply press the matter for collection.

You make no effort whatever to dispose of the matter. You do not reply to our letters and the point has now been reached where it seems useless to continue further in this very unsatisfactory way.

Unless you dispose of this matter promptly, within ten days after receipt of this letter, we shall be obliged to use other means for collecting the balance of $..... from you. We very much regret that you have forced this alternative upon us, but we see no other way out of the difficulty.

Sincerely yours,

CHAPTER XXXIII

INSTALMENT COLLECTIONS— GENERAL PUBLICATIONS

Selling Books on the Instalment Plan

One of the most justly esteemed publishers in America handled in the year 1917 forty thousand instalment accounts of men and women who had purchased books by mail. His largest set sells for nearly $150, with monthly instalments running for two years. The average instalment, however, is $3 a month, and it is desired to have every proposition mature in eleven months, and be settled within a year. A sale less than $15, in the opinion of the credit manager, is hardly profitable on the instalment plan, considering the expense of handling, which is as great as in the case of a larger sale, while the credit risk is worse.

The instalment plan is the only way in which sets of books can be sold. Accordingly, this house has estimated its risks and losses, verified them from experience, and determined its marketing plan, including price, to correspond. The outstanding features of its qualities as they affect collection are:

1. Conservative sales and advertising policies.
2. Service accompanying many books, showing how to use them.
3. Reports on all new accounts.
4. Courteous treatment in the early stages of collection; severe treatment later.
5. Ledger cards with follow-up notations on the back.

The advertising, while highly attractive, makes no exaggerated claims, and the terms of sale, including the return of

the books or payment at the end of a definite approval period, are carefully stated in the coupon which purchasers send in.

Obtaining Credit Information

Where reports on new accounts cannot be obtained through representatives of the company, the services of an individual attorney, not an agency, are employed. In towns under 5,000 population, where an agency would be useless, a most interesting device is used. An attractive form letter, together with a blank form, is sent to the chief of police or the justice of the peace in the town, offering a small article of personal use, an electroplate of which is enclosed, in return for the information asked on the blank. Though the cost of the article supplied is small, it is of good value, and the appeal to the desire of securing something for nothing is sufficient to secure a satisfactory report. Each inquiry under this plan costs the company eleven cents.

Beginning Gently

With a view to avoiding trouble on later instalments, and retaining good-will as a basis for the sale of other books, mild letters are used in the early stages of collection. The follow-up system provides for fifteen-day intervals, and consists of a first and second notice accompanying statements, followed by four multigraphed form letters. Frequently a special cash offer is made with the second statement, to induce prompt payment. If at the end of three months no payment has been made, the account is charged up as a loss to the department against its reserve. Individually typed letters, based on a paragraph form-book, are then employed for collection, and anything secured after this time is, of course, put into the reserve. The life of all forms is three months, after which they are revised, so that no delinquent ever receives the same form twice.

The First Resale

The letter acknowledging the new account resells the books and explains the terms of payment.

Dear Sir:

We thank you for the account which you have just opened, and shall endeavor at all times to make our business dealings most pleasing to you.

We hope that you will give the volumes covered by the enclosed invoice a very careful examination, as we are confident that there is a wealth of information and enjoyment to be found in their pages, and that you will never regret your purchase.

There are two ways of paying for these books as you will see by the bill, either cash in one payment, for which a liberal discount is allowed, or in regular monthly instalments. If you choose the latter method, which is perfectly satisfactory to us, you will receive a statement of your account on the first of each month.

If questions or misunderstandings arise, and you will address the writer personally, he will be only too happy to place himself at your disposal.

Cordially yours,

.....

THE COLLECTION MAN

The Appeal to Fair Play

In the personal letters issued, following the printed forms, the collection man makes interesting use of various appeals. The following letter, for example, illustrates the appeal to fair play.

Dear Sir:

Have we failed or have you?

We appeal to your sense of fairness for the answer.

If you have not received everything which your order entitled you to—if you have written us your complaint and we have failed to adjust it to your satisfaction—then we are to blame. Our intentions are good, however, and if you will state your case right on the back of this letter, we will promise satisfaction.

That is fair, is it not?

You will be fair, too, we know. If our part of the contract has been fulfilled—if payments have not been made merely because you put it off or forgot, then *you will make it right,* we are sure.

To bring your account up to date will require a remittance of $.....

Just return this letter with your remittance, and we will know that you are another American who believes in a square deal.

Yours very truly,

For Apparently Hopeless Cases

Another letter used with apparently hopeless cases is a variation of the "general manager" letter explained on page 216.

Dear Sir:

This morning my assistant showed me a list of all accounts on books showing more than two payments in arrears. "Turn them over to our attorney" he said, "for those who allow their accounts to slip that far behind, do not intend to pay." "I can't agree with you," I said, "these people are good, and I am sure of it. Give them ten days and they will prove it to you."

Was I right?

You still owe us a little balance of $..... Surely after going as far as you have you are not going to flunk out. You are not going to compel us to tell the judge about it in order to get our money. Of course not. Mail a check to us now and show the credit man that he is mistaken. Don't bother to write a letter, just pin your check to this sheet and send it Now.

Yours very truly,

For Extreme Cases

The following short letter is said occasionally to be effective in extreme cases.

Dear Sir:

Honest men pay their just debts.

Dishonest men do not pay their just debts.

You owe us $.....

Which are you?

Yours very truly,

Before Taking Legal Action

When a warning has already been sent that legal action will be commenced, the following letter may be employed

with a customer whose credit risk is apparently good. It asks for a friendly man-to-man understanding and appeals to co-operation, while at the same time it points out the inexorable nature of the action that has been ordered.

Dear Sir:

If it was possible for you and me to get together for just a few minutes I am sure that we would soon be able to straighten out your account with this company, but as this is a physical impossibility, cannot it be done by mail?

You will remember that on ..... you purchased a set of ..... for which you agreed to pay $..... as follows: .....

However, for some reason unknown to us, your payments have not been kept up as agreed, and at the present time there is $..... past due.

Will you kindly use the enclosed envelope, and write me a personal letter stating your side of the case, advising me if possible just how we may expect you to settle this account, and if you can, accompany your reply with at least a dollar in order that it may be possible to keep your name in good standing on our books.

I offer this chance to save yourself needless expense and embarrassment which results from legal action which is ordered to begin against you two weeks from today. Will you grasp the opportunity?

I shall be looking for your letter. With kindest regards and best wishes, I am,

Very truly yours,

The Follow-Up

If this is not answered the company follows it with a letter based on the assumption that the customer is deliberately withholding payment.

Dear Sir:

Two weeks ago I wrote what I thought (and meant to be) a courteous letter that called for an answer on your part. I asked that you tell me frankly what the trouble was with your account, for I felt sure that it could be easily adjusted. You have not answered my letter.

Apparently you are neither negligent nor careless. It appears that you intend to keep the books, and default on the payments. Perhaps you will be successful. If you think it worth the effort, you might try, but we caution you that *every effort* will be made by us and by our agents to *force payment.*

You bought a set of ..... costing $..... You have paid $....., and now owe us $.....

Yours very truly,

Ultimatum No. 1

Examples of final letters that may be used to offer the customer a last chance before action is begun are the following:

Dear Sir:

Your account being still unpaid, Attorneys ..... have asked us for permission to bring suit against you. We have requested them to suspend action only until you have had one final opportunity of remitting voluntarily to us direct.

We are absolutely at a loss to understand your silence. It is possible that you have apparently some good reason for not remitting for your purchase, but surely you have no legitimate excuse for refusing us an explanation.

We have tried to be courteous and square in our dealings with you, but there is a point where courtesy ceases to be a virtue.

Unless we hear from you by return mail we shall allow the collection agency to take whatever steps may be necessary to effect settlement.

Yours very truly,

Ultimatum No. 2

This letter is the last chance, after which the law takes its course.

Dear Sir:

We are this day wiring our corresponding attorney in your city to proceed with action against you on our claim amounting to $.....

We have written repeatedly, giving you many extensions, but clients won't wait any longer. You have a day left within which to make settlement. Send check and wire or write us that you are doing so immediately. This is final. Govern yourself accordingly.

Yours very truly,

CHAPTER XXXIV

INSTALMENT COLLECTIONS— SPECIAL PUBLICATIONS

The Hardest Form of Collection Problem

If you wanted advice about strategy and tactics, would you go to a veteran of the Spanish-American War, or to Joffre, Haig, or Foch? As Roosevelt has recently said, the war of '98 was "all the war there was," but the methods our boys are learning today make the methods of that time "as out-of-date as those of Caesar's Tenth Legion." In the same fashion, credit and collection men have learned to value the hard-won lessons of experience gained by companies which confront collection problems of more than common difficulty.

According to their own testimony, the publishers who sell expensive sets of books on the instalment plan have the hardest form of collection problem. Especially is this true if the article, to be successfully marketed, must be made to appeal to a large section of the general public which ordinarily would not purchase books in such quantity at one time. The problem is almost entirely a credit problem, for no article, say the publishers, is so easy to collect for as a book that has fallen into the hands of a person who has even begun to use it. Still, the difficulty of determining who are good credit risks creates a hazard which, let the credit man do what he may, falls on the back of the collection man.

An Unusual Credit Risk

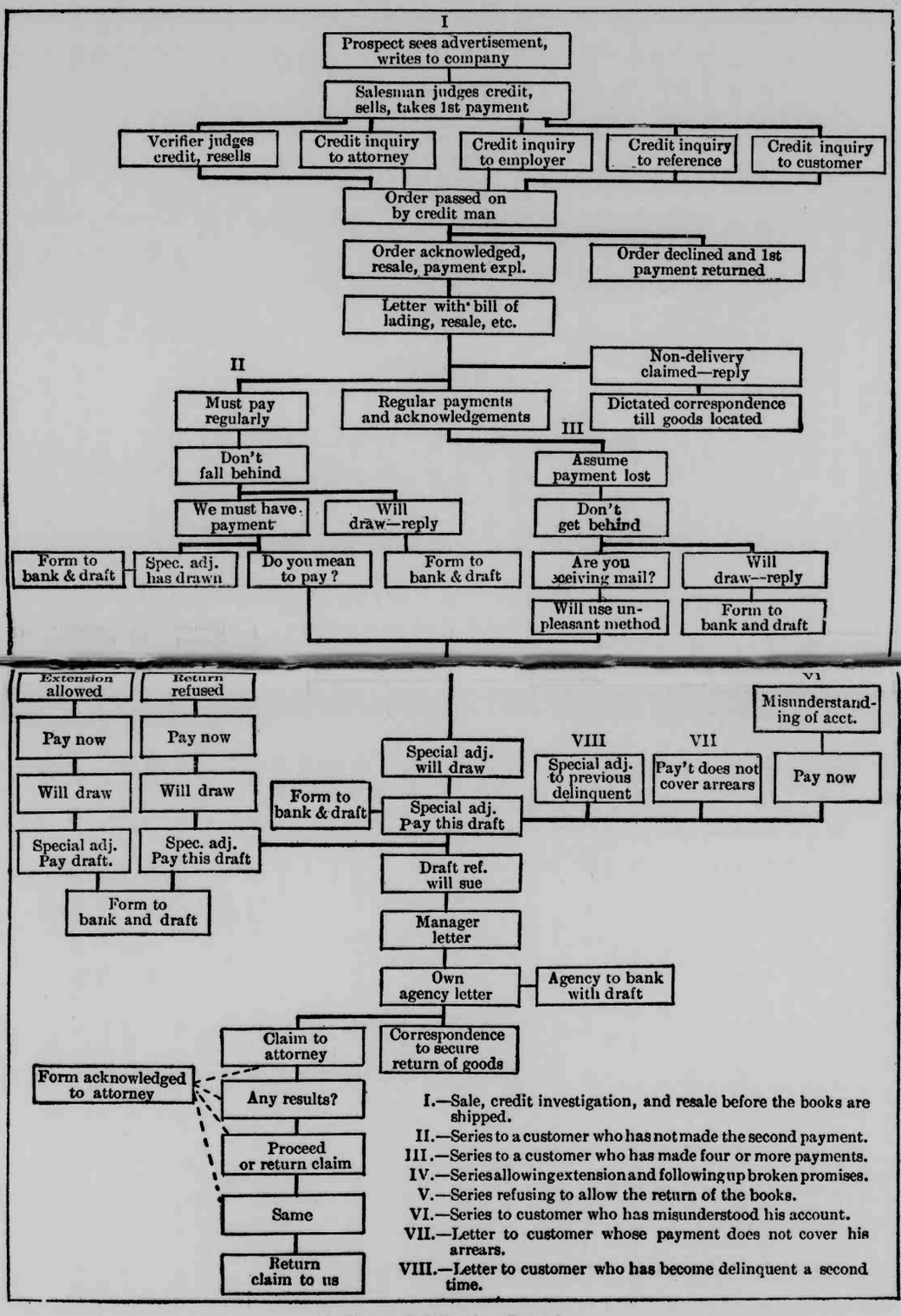
The credit risk undertaken by one publisher selling an expensive set of reference books has been most unusual.

On the one hand this corporation deals in an article of unique reputation in which the public has confidence. On the other hand it deals in an article, which unfortunately for the good sense of mankind is well known to present the toughest possible problem to the collector. To be successfully marketed, moreover, this set of books must be made to appeal to a great section of the general public which would not dream of buying any other set one-half or perhaps even one-fourth as expensive. The books are, moreover, books of reference, which demand work if a man is to enjoy them. On the whole it is hard to imagine a collection problem having more elements of interest, especially when one remembers that the series of payments may extend over a period of years before final settlement has been made.

The Sales Campaign

Whether the sale of a set of this character is undertaken by a salesman alone, or by salesmen and bookstores, or by these mediums with the additional assistance of an advertising campaign, the solicitation must be vigorous and persistent, and must leave no appeal untouched that is likely to secure interest in the books and final purchase.

In such a selling campaign advertisements and salesmen should be careful not to oversell to the point of weakening the sense of credit responsibility in the customer. The salesman should be carefully trained to estimate the credit risk. If this is not done, if the salesman is allowed to let his eagerness to earn commissions override the carefully determined rules against taking irresponsible credits—no subsequent collection efforts will avail. The collection department must have a fairly sound basis to use as a fulcrum for its efforts. If this credit fulcrum does not exist the collection effort will be a disastrous failure. Resale of the goods, of the credit responsibility, and the method of payment must be carried on well into the col-



A Chart of Collection Procedure

represents the practice of a well-known house. It is typical of the steps which any collection man may need to take in his own work.

lection period, as well as receiving thorough emphasis before the books are shipped.

In this collection campaign the principle of surprise and impulse dominates throughout, in that the procedure is so flexible that a delinquent customer can never be sure what step will be taken next. Skilful use is made of appeals to emotion and instinct as well as to the formation of habit. The appearance of the letters is studied in order to produce high attention value. Every letter issued is carefully adjusted to the prescribed condition it must meet. So far as possible, the situations which occur with comparative frequency in the experience of the collection department are reduced to a routine and taken care of with the minimum of attention, although the whole process is constantly supervised and judgment is exercised as to the steps to be taken in any particular case.

A special school conducted by the credit manager teaches the salesman what classes of customers are likely to keep up an interest in the books sufficient to carry them through the period of payment. He is trained to judge by the location of a home and its furnishings, as well as by the characteristics of the prospective customer. In making the sales he receives the initial payment and carefully explains the credit risk and the methods of payment. In large cities the salesman is followed by a verifier whose special task is to check up the salesman's judgment as to credit reliability. His report is made on the basis of a call at the subscriber's residence and at his place of business. In some cities also a "downtown man" calls at the customer's place of business and secures information. This report is signed by the person who made it and countersigned by the collection department and credit department. In localities where no verifier is employed, inquiry forms may be sent to the town clerk, to a bank, to a prominent merchant, to the subscriber's employer or other reference, or to the subscriber direct. The assembled infor-

Verifier's Report

Date.....

Name .....

Residence ..... Phone No..... Listed.....

Business ..... Phone No..... Listed.....

Residence Report	Business Report
I called at.....	I called at.....
Neighborhood	Building .....
House	Neighborhood .....
	Employer or employed.....
I interviewed.....	Name of firm.....
Rent	Business .....
Married or single.....	Large or small.....
Age	Rating .....
Has lived there.....	How long here.....
Lived previously.....	Rent .....
Credit standing.....	Where previously.....
Bank	
	I interviewed.....
From information received at this address I believe order.....	Sub-employed .....
because	How long.....
	Salary.....
	Where previously.....
	Permanent or temporary....
	From information received at this address, I believe order...
Signed	because .....
	Signed .....

Collection Department Statement

I believe we ..... collect this account because .....

Signed .....

.....

Credit Department Statement

We ..... accept this order because .....

Signed .....

mation is submitted to the credit man who either accepts it and fills out a ledger card (see page 324) or decides not to accept it and writes a diplomatic letter returning the customer's first payment.

The next step is to acknowledge the order and to send the bill of lading. This is done in two successive letters which use the opportunity to resell in slightly varied form the books themselves and outline the method of payment.

The acknowledgment letter:

Dear Subscriber:

We are glad to acknowledge receipt of your recent order. It will have our prompt attention and shipment will be made as soon as possible.

The books you have purchased are among the most valuable works in the English language. Their possession cannot help but be a source of much pleasure and benefit to every owner. And we congratulate you on your good judgment in placing this order.

Enclosed with this letter we are sending you your Record Card. Please read it carefully. We want to emphasize the following points:

1. Please send payments regularly and in time to reach us on the date they fall due.
2. Preserve your Record Card and enter on it every payment you make, so that you will know at all times exactly how your account stands.
3. Advise us promptly of any change in address.

Thanking you for the order, we are,

Yours very truly,

Together with the above letter goes a record card which by underlined and capitalized statements shows an equally anxious desire that the customer shall understand with the utmost possible clearness just what his responsibilities in the matter of payment are. This publishing house, like many other houses selling on the instalment plan to a high grade of purchasers, has found that it costs less for the customer to remind himself of his monthly payment than to send

him a statement. Many customers even find it an annoyance to receive monthly statements. Probably the record card system causes more unintentional delinquency, but it is far easier to send a courteous reminder now and then to a forgetful customer than to send out numerous statements monthly.

General Plan of Collections

When an instalment fails to put in an appearance at the due date, the collection procedure begins and letters are sent at weekly intervals. The first two use courteous though urgent language, while the fourth, when a month has passed without a reply, makes it clear that unpleasant consequences will follow unless the payment is received. Thereafter the account goes through the hands of a special adjuster who first warns of a draft, then draws, notifying the customer and urging payment, and then, if the draft is refused, threatens suit.

At this stage three courses lie open to the collection manager. He may send the claim direct to an attorney in the subscriber's locality, but he is more likely to try the effect of a strong letter from a collection agency operated by his own department accompanied by an agency draft and letter to the subscriber's local bank. A third course is to send a letter from the general manager which courteously expresses the opinion that there has been a mistake and offers to keep the account out of the attorney's hands until the subscriber has had a chance to explain to him personally.

If the credit has been considered reasonably good and the account looks collectible, the manager is likely to send the "general manager" letter, the "private agency" letter, and then to turn the claim over to the attorney. But if the credit looks weak, he is likely to follow the agency letter with correspondence directed towards securing the return of the goods, in which case, of course, the subscriber loses the payments already made. Naturally the company prefers to adopt other

methods before taking this last resort, but it "pulls the books" unhesitatingly if this seems the best course.

If the credit looks weak, the manager may decide after the second letter that it is a mistake to use further leniency and may send a letter threatening to draw, followed by draft, if the reply is not received in a week. In the same way special adjuster letters, draft correspondence, and attorney correspondence may be "switched on" when desired.

The "Good Customer" Series

After a subscriber has made four or more payments it is fair to assume that he has formed the habit and, what is of vastly more importance, that he is using and reading the books. The company is thoroughly justified in assuming in this case that he is convinced of their value to him and that he would not part with them for many times the money. Accordingly the first reminder to a subscriber in this situation is a courteous suggestion that his payment has been made but for some reason cannot be located. A form at the bottom of the letter makes the reply easy.

The first letter—a courteous suggestion:

Dear Subscriber:

Your regular monthly payment has not been credited to you.

To help us locate the payment, will you kindly give the information requested below and mail the slip to us at once?

Please give this your prompt attention, as we are anxious to have your account shown on our books as up to date.

Yours very truly,

.....

Date you sent payment .....

Amount of payment $.....

Form of payment (check or money order) .....

Name and Address from which payment was sent.....

.....

Is this the same address from which the previous payment was received? .....

The second letter is still courteous though it expresses surprise and "resells" the value to the subscriber of the "use-while-you-pay" plan.

Dear Subscriber:

We wrote you some days ago about your account. It has been going along so smoothly that we were surprised to find that your monthly payment hadn't reached us.

You haven't replied to our letter, nor has the payment been received.

Please remember that our "Use-While-You-Pay" Plan is very convenient and easy to follow, provided you keep your account *up to date* and make *each* monthly payment as it comes due.

Surely you realize this and do not want your account to get in arrears. If your payments get behind, it is HARD to make up the back payments.

Your account is only a little overdue. Now—while it is ***easy***—get it up to date by sending us a payment. Use the slip below.

We shall expect your remittance by return mail.

Yours very truly,

.....

I enclose $..... to cover the payment overdue.

Name .....

Local .....

Town ..... State ....

The third letter begins with the pointed inquiry, "Are you receiving your mail?" which holds up before the customer his failure to reply. It states plainly that the company's income is received from just such payments as these, and implies that spurred on by plain necessity, it is determined to secure its just dues. There is no hint of weakness or "poor mouth" in this statement but rather a frank explanation of the grounds of their persistency, which coupled with the company's well-known prestige and strength, is calculated to make a careless debtor send in his check at once lest a worse fate befall him. At this point, as has been stated, a letter warning of a draft may be sent. Otherwise the fourth letter tells the subscriber

frankly that the company's patience is exhausted and asks him to show his appreciation of their courteous treatment by an immediate response. If he does not—and here is the phrase that stings—they will be obliged to adopt "unpleasant methods."

The fourth letter—a suggestion of "unpleasant methods":

Dear Subscriber:

This is our FOURTH letter regarding your failure to make your monthly payment.

Considering that one payment is nearly *a month overdue* and another is about due—and that you haven't even paid us the courtesy of a reply to any of our letters—don't you agree that we are very patient with you?

We think we are, but frankly, *our patience is about exhausted.*

We want a payment on your account—and we want it Now.

Show that you appreciate courteous treatment by an immediate response to this letter. For if you do not send a payment AT ONCE, you will compel us to adopt unpleasant methods to collect the money due us.

Please help us to avoid any trouble on your account. Send a payment Now—using the slip below.

Yours very truly,

.....

I enclose $..... to cover the payment overdue.

Name .....

Local .....

Town ..... State .....

If possible, include the payment that will be due next week—that will put your account in the *up-to-date class.*

The "Poor Customer" Series

But suppose the subscriber after making his initial payment and receiving the books fails to send the next payment. This situation has a doubtful complexion which the company hastens to recognize by a longer and more urgent letter than the first one of the series just described. This letter takes no chances on assuming that the payment has been sent, but assumes instead an oversight and "resells" the importance of keeping close track of the record cards.

The first letter:

Dear Subscriber:

Your payment was due nearly a week ago—but it has NOT been received.

No doubt this is an oversight on your part. If you sent a payment, and you know it must have crossed this letter in the mails, just destroy this letter. If you have NOT sent a payment, please fill in a slip at the end of this letter and enclose it to us with your payment.

When we acknowledged your order we sent you a Record Card showing the date your payment is due each month. If you have mislaid this Record Card we will send you another on request, so that you will have a reminder for your NEXT payment.

This is important, as we do *not* send notices for each payment.

Earnestly requesting your co-operation in this matter of prompt monthly payments, we are,

Yours very truly,

.....

I enclose $..... to cover the payment now overdue.

Name .....

Local .....

Town ..... State ....

The second letter, after pointing out that no reply has been received "resells" the credit plan in the sentence, "You accepted credit from us in order that you might benefit by our 'use-while-you-pay' plan, and we want to see you get started right in your monthly payments." It reminds him of the emphasis laid in the bill-of-lading letter upon the formation of right habits and urges him not to get in the class of subscribers who run behind in their payments. The third letter, like the third letter in the other series, points out that they "need the money" and are determined to get it. It urges the importance of starting in right, rather ominously suggests that the subscriber is stirring up trouble for himself, and concludes by urging that he save himself the annoyance and them

the expense of these urgent letters by restoring pleasant relations with the payment. Instead of sending this third letter, the manager may decide to begin draft correspondence, as in the other series, though in a more urgent tone.

The third letter is a stinging letter. The first sentence is like a slap in the face, though even here the company shows that it is the subscriber's action which forces them to this unpleasant assumption. A remarkable device is the last paragraph, the effect of which the reader may test for himself. Incidentally, this stinging language would be vastly less effective without the softening of tone in the next to the last paragraph.

Dear Subscriber:

Do you want us to think you accepted your purchase from us, but never really intended to pay for it?

We have written you three times regarding your failure to make your monthly payment, but you don't even extend us the courtesy of a *reply.*

ONE payment is nearly a *month overdue,* and a SECOND will be due in several days. This condition cannot continue.

We must have a payment, and we want it Now. We cannot afford to keep writing you letters about your account. *You* know it is overdue, and *you* know it must be paid, so send us the money at once. Use the slip on the end of this letter.

Our relations began so pleasantly that we regret having to write you in this manner. But we must make it clear to you that your future payments *must be made when due,* and the payment you owe MUST BE PAID NOW.

We sincerely hope that you will not ignore *this letter.* Read the first paragraph again.

Yours very truly,

.....

I enclose $..... to cover the payment now overdue.

Name .....

Local .....

Town ..... State ....

If possible, include the payment that will be due next week—that will put your account in the up-to-date class.

The fifth letter is the special adjuster's appeal. Not until the fifth letter, in case the credit appears strong, does the special adjuster make his appearance, warning that he will draw if a reply does not appear and appealing to the sense of fair play in the paragraph: "There are just two ways to collect debts if people don't seem willing to pay. One is to appeal to a man's reason and sense of fairness; the other is to force him to pay. We much prefer the former method. Don't you?"

The sixth letter accompanies the draft. This company does not believe in sending out drafts to fight their own way. It realizes that the effect of drafts is largely mental and reenforces this effect by sending at the same time that the draft goes to the subscriber's local bank the following powerful letter from the special adjuster with its reiterated command, "Pay this draft," and the frank statement that suit will certainly be undertaken, if the draft is not accepted. A strong appeal to the sense of fair play occupies the center of the letter, asserting the writer's belief that 999 people out of 1,000 are fair and square. The basis for successful suit also is plainly shown. The last part of the letter appeals to the money-saving instinct. It is to be noted that the third and fourth paragraphs in this letter contain harsh language that would raise a welt on even a tough epidermis—if it were addressed to the reader. But the writer implies in the fourth paragraph, "I wouldn't say these things about you even if they were true."

Dear Subscriber:

You haven't sent that payment requested in my recent letter so I have today drawn a draft on you through your local bank.

Pay this draft. It is for the two payments *overdue.*

Some men believe in writing collection letters that are insulting and accuse a man of dishonesty and falsehood and meanness—I don't.

I know that at heart 999 people out of every thousand are fair

and square. I feel that your previous failure to live up to your agreement is not due to any plan or intent on your part to get out of paying a debt that you contracted.

You have received a number of letters from us—all of them courteous and giving *facts*—and unless you pay this draft there is nothing left for us to do but give this account to our attorney in your town, for suit.

In our various letters we have said all that *can* be said about your account. Frankly we don't want to sue you, but just as frankly, *we will*, unless you make your monthly payments.

You understand that if the account goes to suit, it is for the *entire* amount *plus* court costs and attorney's fees. Surely you would rather settle account in the easy monthly payment way.

So *pay this draft.*

Then write me that you will make a fresh start and keep your payments UP TO DATE.

Yours very truly,

.....

SPECIAL ADJUSTER

The seventh letter is written if the draft is returned unpaid, the special adjuster adding, "Does this mean that you are going to force us to sue you." And he tells the subscriber, "We know the law. We know we are fully protected. And that if this matter goes to court we will secure a judgment against you. Then you will have to pay the amount due us plus the cost and attorney's fee." Assuming that the subscriber may not realize this, he says he will hold the account on his desk for a little longer.

The eighth letter is the general manager's letter, which may be used at this point. It is a fine example of the use of appeal to good-will, especially in its request, "Help me to keep our relations friendly" and in its suggestion that the reply be sent to him personally.

Dear Subscriber:

This morning your account was brought to me with the request that I approve the placing of it in the hands of our Attorney for collection.

There is one big reason why I don't want to do that. If we sue you, we will get our money—*but* we take great satisfaction in the friendly relationship which exists between ourselves and our subscribers, and law suits always destroy such relationship.

I wish to *keep* your friendship, and I am confident you wish to keep ours, so I instructed our Collection Department to delay until I had a chance to write to you personally.

Help me to keep our relations friendly, and to avoid the annoyance, friction, and expense of a lawsuit. There must be some reason why you haven't answered our various requests for payment. Please send a letter of explanation—including a payment, if possible—by return mail.

Don't disappoint me, because if you do I shall be unable to delay this matter further.

Use the enclosed special addressed envelope and your reply will come *direct to my office.*

Yours very truly,

.....

GENERAL MANAGER

As will be seen by a reference to the diagram on pages 370, 371, the same procedure is used in each of the foregoing series following the fourth letter, the primary difference being that the initial assumptions are more favorable to the customer who has made several payments than to the customer who has made only the first.

"Extension," "Cancellation," and "Misunderstanding" Series

The company has also determined its typical procedure in several other cases. In one of these a subscriber who has asked for more time in which to make his payment is allowed the extension, but in case he breaks his promise is followed up by three or four letters, the third of which gives warning of a draft, while the fourth urges forcibly that the draft be paid. Similar tactics are used with the subscriber who tries to beg off from his contract and asks to be allowed to return the books. After its first letter refusing this privilege, the company, in the fourth letter, reaches the stage of a draft sent by the

special adjuster, followed by the letter threatening suit when the draft has been refused. If a customer misunderstands his account and claims to have paid more than the company's records indicate, a letter of careful explanation is sent to him. If he makes no reply, one letter is sent to him and he is drawn on without warning.

"Arrears" and "Delinquent Account" Series

Practically the same method of attack is followed when the subscriber, after repeated letters, has made a payment which fails to cover his arrears. If a "weak credit" subscriber becomes delinquent a second time, the special adjuster may be called into play with a letter insisting that the delinquent pay now, which is followed by the urgent letter, "Pay this draft."

General Character of Procedure

Nearly all the letters in the foregoing collection procedure are decidedly urgent and follow up their attack with a swiftness and vigor exceeding that which most companies in a different situation would be willing to use. Several factors explain this situation. The company sells a "once-in-a-lifetime" article, and while it handles other books, it has very little interest in attempting a repeat sale to a subscriber whose habits of payment are shaky. Consequently after a man has successfully resisted the first courteous letters of the series, only one serious attempt—the general manager's letter—is made to retain his good-will. Moreover, after the careful credit examination and the "selling of credit" with which the customer's relations began, as well as the unusual "easy action" devices accompanying each letter, most subscribers who have reached this stage classify themselves as poor pay, and have no cause to take offense at urgent letters.

CHAPTER XXXV

THE BASIS OF RETAIL CREDITS AND COLLECTIONS

The Service Given by the Retail Store

The basis of the retailer's position in the community is service, an important part of which is his charge account service. In collections as well as in sales and advertising, it is his business to sell the service of his store, and not merely the goods he handles.

The foregoing statements are the basis of all retail collection.

The strength of the retail store is its service. The stock of goods has been collected with a thorough understanding of local needs. The location is convenient where men and women can drop in as they are passing by or can telephone their orders and have them delivered. The proprietor and his clerks have the opportunity of knowing all their customers personally and of catering year after year to their individual needs. Many a man would not think of buying a necktie except from the selection he can find in the stock of his own haberdasher.

It is the business of the retail merchant to make friends for his store, not on the basis of price alone, but through good values, prompt and courteous attention, and a complete and well-selected stock. Its success will be based not on these factors alone but also on its sound financing, accurate account-keeping, careful study to determine what lines and what activities are really profitable, and vigorous endeavors by means of the right kind of advertising to enlarge or at least to maintain the store's volume of business. It is necessary to avoid

overbuying, to make rapid turnover, and keep down expenses, and last but not least, to maintain prompt, energetic, and intelligent collection. Every item of a store's efficiency is of value to its customers, since only by these means can it maintain a high grade of service. Every one of the foregoing items has its place in advertising and sales. They can, likewise, be used again and again in collections.

Teaching Customers to Appreciate Retail Service

The principle of resale is nearly as important to the retail merchant as it is to the jobber or manufacturer. On the one hand he is dealing with customers who have little or no knowledge of business principles, who do not realize the nature of the service they are receiving and who consequently are likely to treat their obligations carelessly, unless these are explained to them; on the other hand, his customers' very unfamiliarity with business methods increases the retail merchant's difficulty and even embarrassment in talking about them.

Under present conditions, however, some rudiments of the knowledge of the retail business are being forced upon the attention of even the most careless retail purchaser. The suggestions of the Commercial Economy Board relative to the carrying of small parcels, and urging customers not to abuse the return-goods privilege have been spread abroad through department store advertising and magazine articles. There has been much discussion and some actual trial of the cash-and-carry plan.

As a result of these few circumstances it is gradually being forced into the consciousness of the retail buyer that the service of local merchants in providing convenient stocks of goods, maintaining free delivery, and carrying charge accounts, has a value in dollars and cents; that it is very annoying to be deprived of any portion of that service; and that reasonable care on their part will increase the merchant's

ability to continue this service at high efficiency or even to avoid abolishing it.

Selling Credit

In retail credits and collections, therefore, there is a splendid opportunity for a resale of the service of the store, showing customers that it is to their advantage to help maintain it by prompt payment. Moreover, when securing new customers, the retailer like the jobber, needs to "sell credit."

The resale attitude is even easier for the retailer to adopt than for the jobber or manufacturer, for the retail proprietor or manager is usually head salesman and head credit man rolled into one and finds it easy to talk about his store service. The bug-bear of the retailer in collection, moreover, is the fear of offending his customers and driving away trade, and the only collection method he knows is some variation of the appeal to fear. The result is that he doesn't collect, because he knows well enough that his business is to make friends. But when he has grasped the possibilities of resale, he has found the way to collect the money due him without giving offense.

The Retailer Does a Credit Business at a Cash Price

"If you walk into the average retail store," said a well-known business man, "and ask them if they do a credit business, some of them will say, 'Yes, of course we do.' Others will say, 'No, but we carry charge accounts for some of our best customers as an accommodation.' But even the second speaker may be carrying his customers 60 or 90 days or even more, so that he is really doing a credit business. The fallacy and the danger of his position is that he is doing this credit business at a cash price.

"If you ask a jobber or manufacturer whether he does a credit business, he will answer, 'Yes, we have a credit price

which is net 60 days. Also we have a cash price which is 2 per cent lower.' It may be even 5 per cent lower. The unexplained problem is then, why does the retailer do a credit business at a cash price?"

Perhaps the nearest approach to an answer that can be given is that the customers do not understand the situation, and the retailer hesitates to explain it to them. This is because he knows that the charge account privilege is a powerful asset in his business. It gets him customers who find it an annoyance to pay cash with every purchase. It stabilizes his business, enabling him to estimate the amount of his future sales, and to buy accordingly, because charge customers are repeat customers. It enlarges his sales to individuals because the majority of retail purchasers restrict their credit purchases to a few stores in a given line, knowing full well that it is harder to keep track of one's expenditures if they are scattered over a number of stores. Also the charge account encourages individuals to buy more by making purchase easier, since the unpleasantness of parting with one's money is postponed. On this account some believe that, as a check on needless spending, all retail buying should be strictly for cash. But advocates of this method are usually men who have a strong belief in the natural extravagance of womankind, and who would be the last to advocate a cash basis for their own business transactions. The woman of America is the chief retail purchaser of America, and she has come to appreciate the convenience of a charge account. Many of her reasons are the same as those influencing business men to use credit.

The retail merchant's charge account, then, is to be looked on as a service granted to his customers, and maintained for the purpose of enlarging his business. He may abandon it and put his store on a cash basis for various special reasons or as an emergency measure, but under ordinary circumstances, if he has sufficient capital, he will continue to allow

goods to be charged and paid for at the end of the month.

If the service becomes too expensive by reason of poor collection, the remedy is to correct collection methods rather than abandon a legitimate source of profitable business.

"With a good collection system," says a wise retailer, "I can allow charge accounts *within certain limits* to nearly everybody; I can keep down my prices to meet out-of-town competition; I can give service that will beat any competition; and I can make *friends* by the collection letters I write. Impossible, you say? But I can show you the results."

Granting Credit

There can hardly be any question that a great weakness of the retailer is his looseness in credit-granting. "He finds it easier," says a bulletin of the National Association of Credit Men, "to increase his line of credit with the wholesaler than to collect money from his customers. He does not give sufficient attention to the character and paying quality of his customers. He will take risk after risk without information on these points."

It is perfectly easy to understand why the retailer finds it uncomfortable to obtain credit information and to make the proper impression on the customer's mind at the time of the credit interview. He wrongly looks on it as a non-productive occupation, just as executives in other lines of business sometimes look on the work of the credit and collection departments as non-productive. There is no money in it, he thinks. He believes he can pick up the information he needs as time goes on. And he is, to put it frankly, afraid to say a word about credit lest he give offense and drive the customer away. But let him once look on the problem as an opportunity for making a sale that may mean thousands of dollars during the next several years, and he will no longer consider it a non-productive occupation.

"Selling" a Retail Charge Account

"When new customers come into my store," said a prosperous retail merchant, "I 'sell them the store' and I 'sell them credit.' I let them see that the two are connected. All requests for credit are referred directly to me. Then I have the chance to give the new customers a hearty welcome, and start right in to tell them what the store can do for them. I take a step or two out to the aisle where we can see some of the interesting features of the store. Then I ask, 'Have you been in town long?' I tell them right away, without appearing to notice their answers, how long I have been in business and how the town has changed in those years. Then it is natural to show how the business has grown and to tell about some of the lines we handle. In between, I am asking questions about the customers' location, nature of employment, past location and employment, employers' names and how things are going. If the people are strangers in town, I can often give them helpful suggestions, though I take pains not to overdo this. I should have said that I always introduce the customers to the clerk who brought them back to my desk and to one or two of the other clerks, if I get a chance. If the clerk has already made the sale, he has instructions to get out of the way as fast as possible after this introduction, so as not to seem officious. If he has not made the sale, I end by turning the customer over to him. Then I call attention to some article that is plainly price-marked and show it as an example of the kind of goods we handle and the prices we set. It is easy to talk about the high cost of living and the efforts this store is making to reduce expenses and keep prices as low as possible. You understand that I don't always go through the full performance. But sometimes, when the man or woman gets interested, it is surprising how long a conversation we have. A waste of time? Why, I figure that a fifteen-minute conversation of this kind may mean a $10,000 sale or

more. I'm *selling* the *store*. If that man or woman does business with me for the next ten or twenty years, as may be the case, it is wonderfully helped by the favorable first impression made at that interview.

"By the time this conversation is finished—and you may be sure I cut it short, if the customers show the least sign of being in a hurry—we always step back to my desk where I ask two or three definite questions and put them down on a card. The customers see me doing this but do not sit where they can see the card. I confine these formal questions to the amount of income, which I never fail to ask, and to any other absolutely necessary data which my conversation has not brought out. Sometimes the question about income is the only one I ask at this point. Then I state the terms of the store, always in the same way. 'We will send you a record of each purchase at the time of delivery so you can be sure you got what you ordered. Then we send an itemized statement at the end of the month. Payment is due at that time.' After that, very often, it is possible to say a few words about how glad I am to have good charge account customers and what splendid people I have the privilege of doing business with.

"I have to guard against making this interview too long on the sales side, for fear that the customers will think I am trying to make them buy something they don't want. Also I am exceedingly careful not to say too much about the charge account. And almost everything I do say is said impersonally, with reference to general conditions in the town and my experience. Then, too, I always 'sell them the store.' If the credit looks pretty weak, I say something about people who are regular customers of other stores but who come in frequently to us and pay cash because they like our goods, our service, and our prices. In this case, too, I make the formal interview at my desk just a little longer and make it cover

more ground. Then no matter what sort of credit limit I put on purchases, or even if I refuse credit altogether, I have done my best to make good friends for the store."

What Is the Meaning of a Charge Account?

There are two reasons why the retailer cannot extend credit to his customers in the same way that a wholesaler or a manufacturer extends credit to him. In the first place, while the retailer's amount of ready cash or liquid assets may be considerably less than the amount of his purchases, still he has other assets which he can either liquidate fully or which will be productive of some income within the credit period accorded by the wholesaler and manufacturer. These sellers calculate that the retailer's normal expectation of business for the season will reach a certain sum and that, accordingly, his purchases for that season from all sources should reach a certain proportion of his total expectancy. Among the items on which their calculation is based, is, for example, the stock on hand. The reason credit can be extended partly on the basis of these goods is that they grow more valuable while in the possession of the retail merchant. When they come to be sold, his customers pay him for his trouble in selecting them, buying them, storing them until they are wanted, and selling them in the small quantities desired by each consumer.

The goods bought by the ordinary customer cannot be made the basis of retail credit in the same way as those bought by the merchant, because they are not productive of income. They do not grow more valuable, but less valuable, while they are in his hands. As the authorities on economics would say, the retailer adds a utility to the goods he handles, but the consumer destroys this utility.

For another reason, the retail merchant has not sufficient capital to carry on a credit business like that of some jobbers and manufacturers. The burden of carrying the long-time

credit obligations of his community should properly rest on the shoulders of the bank. The new trade acceptance plan helps the retail merchant in case of need to fall back on the bank with unusual ease.

There is every reason why a retailer should tactfully and courteously explain these matters to a customer who has been taking it for granted that he can allow his accounts to run or who is asking for unreasonable extensions of time. "I'd be glad to help you out with a personal loan if I had the money," he might say, "but the retail business isn't built on a basis that allows me to carry accounts indefinitely. Now, I just got an invoice of goods from Green and Company this morning —And, by the way, I want you to see those goods before you go. You don't want to buy them, I know, but I want you to see them because there are some mighty pretty patterns there and it's just a pleasure to look at them.—Well, now, Green and Company are going to give me credit on the basis of those goods because I shall sell them and shall sell other goods already on hand and pay Green and Company their bills. But it's ridiculous for me to think that you're going to sell your shoes, your hat, and the dishes off your table to pay my bills. No, the fact of it is, I figure my business on a thirty days' basis and establish my prices accordingly, and if I start out to carry people sixty or ninety days, I shall have to go to the bank and borrow the extra capital to do it with and add the interest charges to the prices of the goods I sell. Most of my customers won't stand for that, and we've got to treat everybody alike. You know how that is, yourself." Then he can offer to accept part payment, a note, or a trade acceptance.

Objections to Long Retail Credits

The two foregoing reasons against retail credit, namely, (1) the retailer's comparative lack of capital, and (2) the fact that the consumer destroys the utility of the goods he

buys so that they cannot be considered a basis for credit, can, as has been shown, be tactfully presented to customers. Another fundamental reason which cannot be so easily discussed lies in the different nature of the credit risk. The retailer is definitely established in a particular location and has made a considerable investment, the value of which is entirely dependent on his staying there for a considerable time. Detailed information concerning the state of his business can be obtained from which the skilled grantor of credit can form a very accurate estimate as to the amount of risk he may venture upon. But the retail customer is not so much a fixture in the community. He can, theoretically at least, pack up his personal belongings and his troubles in his old kit bag and leave for parts unknown. It is almost impossible, moreover, to tell from outward appearances the amount of his income and his ability to pay.

It may be argued that in communities which are fortunate in having a well-established credit bureau the financial status of a large number of citizens is accurately known, so that long-time credit can be granted them, and they, being well-to-do citizens, can pay the consequent high prices. But if this theory is carried into practice, it works hardship to all the members of the community who are less able to pay, to the small-salaried people and to the laborers on wages that barely permit them and their wives and children to live from week to week. Long-time retail credits force prices up and are a grave injustice to the poor.

Still another objection to long retail credits lies in their relatively high expense as compared with wholesale credit. The labor of handling a great many small items runs up the retailer's cost of handling charge accounts to such a high figure under the best of conditions that he dare not inflict on his business the heavy burden of tying up considerable sums of his capital unproductively. Those thousands of dollars

should be reinvested in his business and earning money for him.

The Reason for 30-Day Credit

The retailer cannot do a credit business. The charge account system is merely a convenience for the store's customers. The usual retail store has not enough capital to finance the social plungers of the community—a highly hazardous business for any financier. It assumes that its customer is anticipating his purchases by not more than 30 days, since this is the usual time when retail customers receive their own salaries or wages, or have their own bills paid if they are professional men. The theory is that the customer either has the cash in his pocket, but wants to avoid the bother of pulling it out, or that he has it in the bank and prefers to save time by drawing all his checks at a single time; or that he does not himself receive payment for the services he performs in the present month until the first of the next month, and that consequently he does not pay for services received or goods received until the same time. In other words, he trusts his employer for 30 days and the retailers of the town, in like manner, trust him for 30 days.

CHAPTER XXXVI

COLLECTION METHODS OF RETAIL MERCHANTS

The Retailer's Credit Record

The simplest sort of card-file will do for the average retailer as a record of credit information. The items he needs especially are: full name and address, occupation, name and address of employers, if any, and amount and sources of income. He may also ask whether real estate is owned, and if so, by what member of the family and where the property is located; what securities are held; bank in which the customer has deposits; names of other stores with whom the applicant does a credit business, and names of other references. While these latter items are worth knowing, they are seldom asked for except by stores in large cities, and then only in case purchases are likely to run to considerable amounts.

Some successful merchants make a practice of keeping card-records of every customer, whether cash or charge, with whom they do business, and use it primarily for sales information, though it contains necessary credit data as well. A few facts about the personality of the purchasing members of the family, their likes and dislikes in merchandise, and any important purchases, find equal space on these records together with the information whether the customer is slow pay or poor pay. The names and ages of children in the family are a valuable item.

The Ruedebusch System

In the town of Mayville, Wisconsin, is located a thriving country department store the proprietors of which hold positive views on the comparative merits of cash and credit. For their own use they have devised a system which is both easy to administer and certain to bring satisfactory results. The class of trade to whom they sell is no different from that of many other retailers. "We have charge accounts," they say "with very many classes of people; many good farmers and renters; hired men and hired girls; all kinds and classes of 'city people'; and a pretty large percentage of wage earners, working in Mayville industries.

"The total net sales of the Charles Ruedebusch Company in December, 1917, were $11,196.39. Of this, $5,753.39 were charge sales. When we closed our books on January 10, 1918, our total Accounts Receivable amounted to $3,953.02. The net loss on accounts in 1917 was less than $50 (over three times that much was transferred to Doubtful Accounts in 1917, but we collected enough of former Doubtful Accounts to reduce the net loss to the above amount.)

"The very simple work on our system is done in leisure moments by the cashier, who used to get $25 per month, and has now been made very happy by a raise to $35 per month. Our manager spends from one-half to one hour twice a month sitting in his easy chair and marking collection lists. No extra expense or trouble in all of this for us; there is, of course, some extra amount for postage, stationery, and letter writing; but the total of this is but an insignificant amount in a year, and a great part of it is made up by saving time and stationery on petty accounts.

"The great saving for us through this system comes in the following: $180 per year saved on interest (the same volume of credit business done with $3,000 less investment) —and several times that amount saved annually on losses and collection expenses. By far the greatest advantage, however, consists in still another thing: our former crude methods always caused considerable irritation on both sides and kept

a lot of persons away from our store, while we now make all our charge accounts—even the uncollectible ones—bring us in extra trade.

"Nobody could ever induce our store to go back to the former ways, or to a spot cash or thirty days' limit basis, not by thousands of dollars."

The secretary of the company has prepared many such systems for other retailers, and knows whereof he speaks. "Positive terms," he says, "strictly applied to all customers are positively wrong for the country dealer. He should give credit to one man for a few days or a week only, demand monthly settlements from another, give a third several months to settle up, tell another that he need not pay at all until it suits him, and be very pleasant about it in every case, always showing that his main object is to serve and to accommodate everyone as well and as much as possible." This retailer believes that a merchant who gives up his credit business simply helps the big mail-order concerns, and that he has no need to lose money in handling his charge accounts.

The basis of this system is first, a carefully specified collection system for the bookkeeper and another for the manager, prepared in detail and bound up with a book of specially prepared form letters covering every situation likely to arise, and classified under the headings of "Monthly Statement Accounts," "Extra Favor and Confidence Accounts," and "General Accounts." Separate treatment is given to Single Bills (accounts for only one sale) and Petty Accounts (accounts of $2 or less). Under each of these headings is a series of letters closing in each case with a notification to the customer of some final disposal of his bill, whether this may mean sending it to a lawyer, or merely transferring it to Doubtful Accounts.

A portion of the contents of such a system prepared for a Wisconsin merchant runs as follows:

CORRESPONDENCE AND COLLECTING SYSTEM

Monthly Statement Accounts ("M. S.")

1. Introductory letter—requesting monthly settlement.
2. First request for payment.
3. Second request for payment.
4. Third request for payment.
5. Last request before going to lawyers for collection.
   500. Last request before transferring to "D. A."
6. Notice of transfer to D. A.

Single Bills ("S. B.")

7. First request for payment.
8. Second request for payment.
9. Last request before going to lawyers for collection.
   900. Last request before transferring to D. A.
10. Notice of transfer to D. A.

Petty Accounts ("P")

11. First request for payment—advertising letter.
12. Second request for payment.
13. Notice of transfer to D. A.

Extra Favor and Confidence Accounts ("X")

14. First request for payment.
15. Second request for payment.
16. Third request for payment.
17. Last request before transferring to D. A.
18. Notice of transfer to D. A.

General Accounts ("G")

19. First request for payment.
20. Second request for payment.
21. Third request for payment.
22. Last request before going to lawyers for collection.
    2200. Last request before transferring to D. A.
23. Notice of transfer to D. A.

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24. Notice that account has been given to lawyers.
25. Notice of withdrawal from lawyers and transfer to D. A.

At the end of the month the manager receives from the bookkeeper a sheet listing all collection accounts. One column on this sheet contains symbols showing what collection letter was last issued to this customer. The manager thereupon indicates in another column what letter he wishes next to use; or he dictates a special letter to fit the case; or makes some alteration in the usual form letter. The letter indicated is then typed by the bookkeeper and presented to the manager for his signature.

A typical series of letters issued according to one of these systems is the following, used for monthly statement accounts. The resale material in these makes a pleasant impression, while it does not interfere with the impression of promptness made upon the reader.

1. *Introductory letter, requesting monthly settlement*:

Dear Sir:

In accordance with my new System I am sending you the first itemized Monthly Statement of your account. These statements will be gotten out to you regularly on or shortly after the first of every month. By billing them you will have a neat, complete, detailed record of your entire charge account with me.

I am sure that the goods which you have bought of me are good and that the prices are right. I can assure you that I can do fully as well and better for you in the future, as the great advantages which I am gaining through co-operation with other first-class merchants are constantly increasing.

I surely appreciate the business which you are giving me and wish to take this opportunity of thanking you for it.

Very truly yours,

2. *First request for payment*:

Dear Sir:

A considerable part of the amount on the enclosed statement is past due. Evidently you overlooked this last month. I hope you will settle it before the next monthly statements are sent out.

I surely appreciate your trade and am always anxious to please you, not only by giving you the best possible service my store can

offer, but also by extending credit to you whenever that makes buying more convenient for you. My prices, however, are all figured on a cash basis, so I must see that my book accounts never represent a large percentage of my investment in this business.

In case it is inconvenient for you to pay the entire amount soon, please pay something on account and inform me when I may expect the balance.

Very truly yours

3. *Second request for payment*:

Dear Sir:

Last month I sent you a letter in which I called your attention to the fact that some of the items on your account were past due. I now see that you have made no payment on this account in the last 30 days and am wondering what might be the cause of the delay. Please be sure to pay up before the next revision of my accounts (15th to 20th).

This is very important for me, as I must follow my established rules and must keep my accounts low.

But there is one thing which is still more important, and that is to please and satisfy you so that I will be sure of retaining your trade, which I value very highly.

If you have found anything which does not appear right, just, or fair to you, please be sure to tell me about it. It will give me an opportunity of explaining my methods and possibly of improving them.

Very truly yours,

4. *Third request for payment*:

Dear Sir:

I wish again to call your attention to your account. You are allowing payment to run behind. You have already received two letters from me concerning this account, but you have not responded to either of them.

When I opened this charge account for you I thought I was making things easier and more convenient for you; and I was very glad to accommodate you. But I fully expected that you would not postpone payment for such a long time. As all my prices are made on a cash basis, it is important that accounts due me are paid promptly. I cannot afford to extend credit to customers who do not co-operate with me in their payments.

I shall expect an immediate settlement of your account.

Very truly yours,

5. *Last request before going to lawyers for collection*:

Dear Sir:

I really cannot understand why you have not paid any attention to my letters asking for a settlement of your account.

It is now over four months ago that you bought the goods charged on your account. I think you will agree with me that I have been very lenient and considerate and that I am entitled to a payment without any more delay.

Unless you pay your account within the next ten days I shall be forced to the conclusion that I must adopt more effective measures. Accordingly, if you do not pay before the ten days are up I shall hand your account to my lawyers for immediate collection.

I dislike to adopt such strict and harsh methods or even to mention them, but I cannot grant you any more time.

Very truly yours,

500. *Last request before transferring to D. A.*:

Dear Sir:

I am at a loss to understand why you have not responded to my letters asking you to make a payment on your account which is long past due. What does this mean?

The only explanation which I can find for your action is that it would be impossible for you to make a payment to me at the present time without causing yourself or those near and dear to you great suffering. Is that correct?

I surely do not want to cause you any great hardship, but your account must positively not appear in my Register next month. If it is not paid before the end of this month I will close it by transferring it to my list of "Poor and Doubtful Accounts."

I am giving you these extra four weeks because I know you would not want your name to go on that list if you can prevent it in any way. You should put forth every effort to pay your account before the time is up.

Very truly yours,

Transfer to Doubtful Accounts

But what is the retailer to do when his collection efforts fail, and he believes the customer cannot pay?

Mr. Ruedebusch answers, "These people are my good friends and neighbors and I am sorry for them. We want

their cash business. They are not going to leave town; they will still need clothes and shoes; they can get better goods and service from us than from anybody else—and they *know* it. But if they think they will be hounded for their bill they will never come near us. If we lose their good-will too, they will make other enemies for us. I want them to hold their heads high when they come into my store, and to keep right on coming. That means, sometime, they will pay."

The result of his reasoning is that he transfers the account to losses, and tells his customer about it. He gives up the attempt to collect? Not at all. He continues selling this customer on credit? Not that either. Read the following letter and see how it solves the whole problem and *keeps the trade.*

6. *Notice of transfer to D. A.*:

Dear Sir:

We are disappointed. We expected that you would find it possible to make payment to us on that old account before this time, and we are sorry, indeed, that our fine record of collections must be spoiled by charging this to "Losses on Accounts." Fortunately they have been very small so far, and we suppose that there was some sad reason for your failure to pay up.

We have today closed your account by transferring it to our list of "Doubtful Accounts." This does not mean that we have given up hopes of collecting it. It simply means that we did not want it to appear "open" in our charge accounts hereafter.

We want you and your family to visit our store very often to see all the fine new things and the constantly increasing advantages which we are always offering. In these visits you will never be bothered with this unpaid account. That is for our office people to attend to, and, as your account is now "closed," they will not send you any more "dunning letters" until your financial condition has improved.

It is our sincere wish that better times may come for you in the future, and we know that you will then be glad to remember and pay this old debt. It is always particularly pleasant when we receive a payment on doubtful accounts that have been charged to "Losses." We feel sure that you will cause us this pleasure some time, hence we will not worry about your account hereafter, but will

try to serve you so well that we will always deserve and receive all, or a good share, of your trade in our lines.

Yours truly,

When the store management concludes that a customer's failure to respond is due to stubbornness rather than to real inability to pay, the account is turned over to a local attorney. But if he reports failure, a letter is issued which in the first three paragraphs shows the strength of the creditor's position, while the last two duplicate those of the preceding letter.

25. *Notice of withdrawal from lawyers and transfer to D. A.:*

Dear Sir:

Our attorneys have informed us that you do not seem to be willing to pay the account which we transferred to them for collection. They advised us to bring suit against you at once, in order to secure this account, full interest thereon, and all expenses by a judgment, which can surely be turned into cash some time.

We do not like the idea of loading you up with heavy costs and a constantly increasing debt, and we fear that you may not be able to pay up at the present time without causing yourself and those near and dear to you great suffering.

After due consideration we have come to the following conclusion. We will withdraw this account from our lawyers, and will close it by transferring it to our list of "Doubtful Accounts." This does not mean that we have given up hopes of collecting it. It means simply that we did not want it to appear "open" among our accounts hereafter. (For last two paragraphs see preceding letter.)

Method of a Small-Town Merchant

One of America's famous small-town merchants, a man who does a business that many a metropolis might envy, bases his collection methods on a twofold classification of his customers. To the reasonable man who will respond to a friendly request, he writes—after statements with suggestive "stickers" pasted on them have had no effect—"I have a heavy bill to meet in a couple of days with one of my wholesalers. Can you help me out?" This appeal to good-will coming from a

prosperous and successful merchant has in it no element of weakness, and results in the securing of a part payment.

But if the debtor is of the shifty or cross-grained type, the merchant appeals to his curiosity. He writes him, "Dear John, I want to see you about something. Could you come in tomorrow evening about closing time?" In nine cases out of ten, when the man comes in, he brings the payment with him, suspecting that this is the cause of the letter. But the merchant outguesses him by having something that he really does want to talk about, in no way related to the account. If, however, the delinquent does not voluntarily open the subject of the account, the merchant finds it easy to introduce the topic.

Getting Them Used to Statements

In many districts where long-time retail credit has been the rule, customers regard it as a mortal offense to approach the subject of their account. This unhealthy condition absolutely must be remedied, if the retailer is to survive. The issuing of regular statements will be only one item in the campaign of reform, but it is a necessary one.

A successful method when a customer shows that he is angry at receiving a statement at the end of the month, is to say to him, "Why, John, you're mistaken, I'm not dunning you. That's only our new method for helping you to keep track of your purchases. If we let it go for too long a time, it is hard for you to find out any mistakes we may have made." Putting the shoe on this foot and appealing to the customer's self-interest produces results in nearly every case; while, needless to say, the statement and the conversation have an indirect value in making payments more prompt.

Chapters XV to XVII, "The Psychology of Collection," "Appeals to Good Customers," "Appeals to Thick-Skinned Customers," contain many suggestions as useful to the retailer as to the wholesaler.

CHAPTER XXXVII

DEPARTMENT STORE COLLECTIONS

The Department Store's Collection Problem

The large store, especially the department store, has collection problems of its own, due to the fact that the proprietor or manager cannot interview new customers and applicants for credit in person. The applicant for credit is usually brought to the credit desk by a clerk and introduced either to an assistant or to the credit man. The interview which follows is all too likely to be extremely formal, limited to the filling out of a blank and entirely devoid of any attempt to welcome the customer, to talk about the service of the store, or to "sell credit." Often, however, the opportunity is skilfully utilized and the customer is made to feel that despite its size, the store has a personal interest in every one of its patrons. It is always advisable that the actual granting of credit by a large store be made by letter, as it gives an opportunity for some verification of the information received, while the letter itself can be so cordial and explicit as to make a fresh impression on the recipient. The psychologist would point out that most of us are "eye-minded" rather than "ear-minded," and that the explanation of the terms of the house is impressed on the ear through the interview and on the eye by the letter.

Letter When a New Account Is Opened

The following letter, for example, is used with considerable success by a prominent department store.

Dear Madam:

We take pleasure in granting your application for a charge account. We shall render bills on the first of the month succeeding purchase, which we shall expect paid by the fifteenth of that month.

This store especially welcomes out-of-town accounts and places at your disposal the entire resources of its organization to make your shopping convenient, whether you visit us in person or send your orders by mail. Have you been told about our special buyers who become acquainted with your personal wishes and do your shopping for you when you cannot come into town? The enclosed folder will introduce them to you.

All your purchases will be satisfactory, if our care and goodwill can make them so.

Cordially yours,

Handling the Customer in Arrears

A customer with an account in arrears is likely to carry her trade elsewhere, fearing that if she puts in an appearance at the creditor's store, she will be refused credit or taken personally to task. In order to bring her into the store, and to imply that her credit is still good, the manager of a progressive department store on the Pacific Coast uses the two following letters. Needless to say, when the customer comes around, she is tactfully approached and an arrangement is made for payment of her arrears.

The first letter to customer in arrears:

CREDIT DEPARTMENT

Dear Madam:

"What can the matter be?" A store of Smith's progressiveness and prestige is not overlooked lightly. There must be some very interesting reason why you have not been using your charge account here lately. Won't you tell us what it is?

No matter what the trouble is, we want to remedy it, and we believe we can.

Have you visited the store recently? If not, a delightful day awaits you. New Spring goods radiate freshness from every department, a new Wicker Furniture Department has been opened on the third floor, and the colorful Spring creations in our Millinery Department are drawing crowds every day. In fact the whole

building, from Basement Store to Roof Garden, is full of interest and inspiration.

Your charge account is still open, and this is a special invitation to make use of it at your earliest opportunity.

At your service,

The second letter to customer in arrears:

CREDIT DEPARTMENT

Dear Madam:

You have not been using your charge account lately and we are wondering why. We are deeply concerned to know if it is the store's fault. If so, we want to correct it at once. We have greatly appreciated your patronage and any failure in courteous attention, good service, or hospitality on our part would be a matter of deep regret to us.

We urge you to tell us if we have failed in any instance to give you satisfaction.

The store has now put on its summer dress and is bright and fresh with new apparel for home wear or the outing trip.

We have never had more carefully selected or more abundant stocks, nor any that more nearly filled our desire to combine right style and right quality with right price.

We are sure you will like these summer things and hope that you will soon find occasion to use your charge account again.

Yours truly,

Collection Procedure of a Department Store

For the following account of a useful collection procedure for department stores, the author is indebted to a credit manager of one of the large department stores of New York City.

When an account is opened it is given a rating which guides the clerk in passing on an individual purchase, the bookkeeper in posting it, the collector in handling it. At a certain time in each month, the bookkeepers make out statements on all accounts which are unpaid up to the first of the month. These are assorted according to their ratings and the statements issued accordingly.

The ratings, which are in cipher, indicate the amount of

credit allowed, as for instance, a professional man on a salary of a certain amount might be allowed fifty dollars a month. If a customer's purchases exceed his rating, the bookkeeper notes this on his daily report sheet sent to the credit office. The store frequently discovers just grounds for changing the credit rating, and does so. The statement as issued contains the sentence: "Terms: Goods are sold at cash rates and payment required early part of following month." A stub attached to the statement and filled out at the same time is retained by the store. This shows, in addition to the record of amount owing for merchandise delivered, the customer's habits of payment, the month, the date paid, the ledger, the folio, the rating, and its number as a new account. These stubs are assorted according to the ledger and, if the bill is not paid promptly, the name and address are filled in, so that it will serve as a collection memorandum.

According to the proportion between the customer's rating and the size of purchases, the stub may be advanced ten days in the file to wait for the customer's remittance or the adjustment of the account, or some other step in the procedure may be taken at once. Whenever a collection letter is written the carbon copy goes to the bookkeeper during the last hour of the day to make sure that payment has not come in, and if there is any difference as to the amount due, or any complaint (the adjustment bureau always makes notation in ledger at time of receiving complaint) the bookkeeper notes this on the face of the carbon copy of the letters to the customer. The various statements or letters sent, or visits of collectors, are noted together with their date on the ledger. No action is taken without reference to this. The specially slow accounts will be sent down to the credit office by the collection office and stronger letters are written, or a special collector sent out, until finally the statement is made that the account is in shape to be turned over to the legal office, (of

course the customer is always notified that this will be done) as the store is reluctant to do this.

Soliciting Charge Accounts

In their eagerness to secure and hold new customers some large stores are in the habit of soliciting charge accounts. The following letter, for example, was issued by a well-known department store to a selected list of residents in the suburbs of New York City, saying that a charge account had been opened in their name. In making up this list great care was exercised to place on it only those whose credit was known to be first class through their dealings with other stores in the city.

Letter announcing charge account:

Dear Madam:

For your convenience we have opened a charge account on our books under your name.

There is no further formality to consider, and your orders will be filled promptly, without delay of any sort.

If you have "shopped" carefully enough to pass judgment on the prices of such items as those on the enclosed leaflet, you will quickly verify our EXTREMELY CONSERVATIVE claim that "you never pay more at Barton's." (We prefer to say it that way usually, but if you have compared prices in the leading New York stores you will know how much more it really means.)

We shall welcome our first "charge" order from you—and possibly the enclosure may suggest to you the very thing. If it does, you might put our store service to an immediate test by asking Central to give you Chelsea 456, and order what you wish—or a postal card or letter will be just as effective. We deliver to your home free.

Promptness, accuracy, and courtesy are part of our promise—and complete satisfaction with your purchases is the rest of it.

Yours truly,

Overselling Means Hard Collections

Whenever special effort is made to solicit charge accounts, credit risks must be looked up with unusual care and the collection man must watch very keenly the accounts secured in this fashion. The temptation to overbuy is almost irresistible when one carries accounts at a large number of stores. Also, when an account is opened without a credit interview, the store has lost its opportunity to "sell credit," and indirectly to impress the customer's obligation on her mind. It is a method attended with unusual credit risk because it makes impossible some of the ordinary credit precautions. Consequently, if adopted, it throws additional burdens on the collection man and makes it more advisable that in the early stages of collection he sell credit by means of printed remarks on vouchers and statements, special stickers pasted on them, etc. He may also suggest some of the points bearing on the value of credits in any early letters he may write.

CHAPTER XXXVIII

COLLECTION OF PROFESSIONAL ACCOUNTS

The Collector's Function

The subject of professional accounts interests not only doctors and lawyers but also collectors, since no inconsiderable share of the collector's work lies in following up accounts which for various reasons the professional man does not care to press himself. The interests of the professional man, moreover, extend to the work of the collector as well, for if the latter does his work crudely he may alienate clients who should be retained; while if he does his work without sufficient vigor the professional man will lose the money due him.

A Serious Matter to the Doctor

Since the collection of medical accounts presents a problem of unusual interest and difficulty it will be discussed first in this chapter, leaving the discussion of legal accounts until later.

The question of getting the money which is due him for services rendered is a very serious matter for the doctor. Harsh and exacting methods of collection will drive away the patronage which he has laboriously built up. His success is entirely dependent upon the long-continued patronage of families and individuals, who would not think of calling in anyone save him. If after a single call on a patient he should have a disagreement which resulted in his making no further visits, the doctor's practice would be ruined as soon as it was begun.

On the other hand, his inability to obtain the money due

him is often a prime cause of his failure. The failure may be complete, obliging him to give up his practice and to start over again in another location; or it may be only partial, preventing his entire success. It may be a failure to get needed equipment, certain appliances which will enable him to keep up with his profession, and to give his patients the modern service which is their due. He may be unable to make needed alterations or improvements in his office equipment and furniture, with the result that he fails to give his patients the added comfort and conveniences which would increase the pleasure they derive from his services. Perhaps he needs a new car to enable him to make his visits with speed and with the certainty of not being detained by breakdowns. Quite possibly he ought to have a longer vacation so that he can come back to his work with renewed vigor, after a rest; or he may wish to put in some weeks or months of possible study, that will equip him for greater usefulness in the future. In all of these matters his patrons, as well as the physician himself, have a strong indirect interest. The various additions which could be made to his efficiency if he were able to collect the money due him would render him of greater value to his patients and would increase his influence for good over them and in the community.

Moreover the doctor should consider the needs of his family. He may have children requiring an education, who have a right besides to the proper standing in the community which a satisfactory income can bring. Notwithstanding, it is a notorious fact that the majority of doctors have accounts on their books which from an ordinary business point of view can be collected, but which are not collected.

The Difficulty of the Doctor's Case

There are many factors peculiar to the doctor's collection situation. First, he is a professional man and not a business

man, and is hedged about with a peculiar etiquette which prevents him from employing precisely the collection methods of the business man. Sometimes he interprets it as debarring him from employing any real collection methods whatever. Second, his relation with his customers is a personal one; consequently he feels delicate about approaching them directly for payment. Third, he is selling service, not a tangible commodity, but one which different people may interpret variously. Three or four months after they have been cured, their estimate of the service they have received is likely to be pretty low. Fourth, it is impossible for the doctor to make credits; he cannot choose for his customers only those who are good credit risks, but is obliged professionally to render his services to everyone who is in need of them. While this increases the difficulty of making collections it may be said in passing that the position is not without its strength as well as weakness. Fifth, the doctor is himself not without blame; he is typically unbusinesslike. Oftentimes his records are poor, his system is irregular to the last degree and his procedure is limited to issuing statements with an occasional "please remit" stamped across the bottom. Sixth, he deals with "unbusinesslike people." When this statement is analyzed it will be found to mean merely that he deals with people who in the first place have not been educated to an understanding of the credit obligation, and in the second place have no sense of self-interest in paying but only a sense of obligation. The retail purchaser pays in order to escape the annoyance of being dunned, and in order not to have his credit with the merchant cut off. The merchant in turn pays in order to be able to secure from his creditors more goods with which to continue in business. But the physician's patient does not realize that in precisely the same way he must pay the physician in order to obtain his services again in time of need. Nevertheless this is the case. Seventh and

last, the doctor is fighting an adverse tradition. People are accustomed to postpone payment with the half-apologetic defense, "Well, a man must live, you know," or "Perhaps I can spare you $10." They treat him oftentimes as if he were asking for charity instead of for money which rightfully belongs to him. The butcher, the baker, the candlestick-maker all get their money before the doctor. Such a tradition endangers the entire usefulness of the medical profession by casting it into disrepute and lowering its dignity. The physician who combats it is serving his brother physicians, and his community as well.

Another factor which should be estimated in this connection, though not peculiar to medical accounts, is that the bill is sometimes for a lump sum of considerable size which the recipient is unable to settle at once in full.

The Strength of the Doctor's Case

The standards of the medical profession are an excellent reason why the doctor's methods of collection should not sink *below* the standards of business, either by a slipshod irregularity or by an unintelligent harshness. The first is all too often the case when the doctor handles his own collections; the second may be the case if the collector the doctor employs has not received special instruction. The delicacy of his personal relation with his patient makes some difficulties, it is true, but it gives added weight to even the most guarded suggestion from him, and is perfectly capable of being utilized with courtesy and tact as a powerful means of securing payment. As to the intangible nature of the service which he is selling, a skilful suggestion by way of resale can bring these services vividly before the memory of even the most stubborn delinquent, so as to make him realize the worth of the value he has received and to make him willing to pay.

While the doctor cannot make credits, he can adapt his

collection methods to his different classes of customers in such a way that they "classify themselves." The reasonable people respond to reasonable methods, and those who have finally shown themselves unreasonable are turned over to the outside collector.

Has the typically unbusinesslike character of the relations between the doctor and his customers any element of strength? Yes—for when businesslike methods are once adopted, the contrast with the usual methods attracts the debtor's attention and interest and arouses his respect. This has been proved in numberless cases, not only by physicians who have reformed their methods but by retailers and wholesalers also. The adverse tradition can be overcome by meeting it squarely with a campaign of education, preferably through the resolute and united efforts of all the physicians in the locality. The difficulty of the lump sum is easily overcome by making a definite arrangement, when necessary, for instalment payment.

The doctor's case has a legal strength also in that no jury would refuse to accept his own statement of the worth of the services for which he is asking payment. This is offset, however, by the fact that no doctor would care to sue except in an aggravated case, as the ill will which it would bring him would be far more costly than the loss of money involved.

The Need of Resale

The application of resale policies provides an excellent solution for the difficulties of professional collection. The reader should go over carefully Chapters IV, V, and VII-XIII in this connection. He should also study Chapters XV to XVII, inclusive, on the psychology of collection. All of this material is as applicable to professional collections as to mercantile collections.

Resale provides the doctor with logical and practical material for collection letters. It saves him entirely from an

unreasoning harshness. It educates the community to realize the worth of such professional services and so builds solidly for the future. It makes good-will and increases respect.

Adopting Business Methods

The doctor may handle his collections himself either by letter or by personal call; he may employ his reception-room girl under the title of secretary to handle most of them; or he may at times use a collector. The suggestions for procedure which follow in a later section assume the careful preparation of letters by the doctor, to be typed and signed by his secretary. One or more letters may be personally signed, and in later stages a collector may be employed, to whom careful instruction has been given. Since these suggestions imply the doctor's personal control of his collections, it will be advisable, in order to surround them with the proper safeguards, for him to stop and think for a moment of the psychology of the person from whom his money is due, and first of the state of mind of that person at the time when his services were engaged.

Psychology at Time of "Sale"

The psychology of the doctor's patient at a time when his services were engaged depends on many circumstances. These may be one thing in the case of a doctor in a small town or in the country, and quite another in the case of a city physician or surgeon with a practice among persons of wealth. The patient's need may be that of a father whose child is fighting for life against disease, or that of a woman who visits the physician for an ailment that has infected her imagination but nothing else. Nevertheless in every case a need existed. More than this; the need was so imperative that it is recognized as paramount by the standards of the profession. A doctor is forbidden to refuse his services; this single fact

indicates the basis on which our estimate of the worth of his service depends. This need will exist in the future with the same patient who will require at recurring intervals similar service in cases of more or less vital necessity.

Let us suppose for a moment that it was according to professional etiquette for the physician, like the lawyer, to demand cash in advance or a retaining fee. This would be given by the patient without the smallest hesitation, so overwhelming would be his sense of the worth of what he was seeking.

In the collection process, accordingly, which is simply resale, something can be done to awaken by suggestion the state of mind which existed at the time when the services of the doctor were required.

The Force of Habit

Throughout his collection procedure the physician should take a position of strength and not of weakness. He should use appeals which would imply the customer's own advantage in prompt payment, and appeals to such positive emotions as good-will, fair play, and the sense of honor, rather than appeals to the sense of pity. (See page 174.)

Good Records

The foundation of collection system for a physician, as well as for a business man, is good records. Notes of office calls can be taken down by the assistant, while notes of home calls made by the doctor can be taken down by him in a memorandum book and turned over to be copied by his assistant at the end of the day. Every physician knows how records of this sort should be kept, but frequently in the rush of professional duties these items are overlooked because their importance is not realized.

These cards can be kept alphabetically in the simplest sort

of filing box obtained from any local stationer, and gone through once a month.

It is contrary to the standards of the profession to treat all customers alike. The doctor is well aware that some of his patients will never be able to pay, and he either bills them for a nominal sum, or perhaps never even sends them a bill. These facts should be noted on the record card. Others among his patients will be so well known to him personally and so sensitive to their credit obligation, that the doctor, like the business man, treats them as Class A customers, and never sends them anything but simple statements. This fact also should be noted on the record card. Some people will be of sensitive honor, but financially unable to pay the entire bill on presentation. To these people the doctor will probably say on the occasion of making his last visit, "Now my secretary will be sending you my bill as usual, but if you don't find it convenient to let me have it all at once, you can make a payment when you get the bill, and another on the first of the next month." In still other cases, he will probably tell the patient not to worry about it, but to pay him when he can.

It is to be supposed, however, that the majority of people will receive a prompt and regular series of statements and collection letters. It is fundamental that this shall be the case if the profession is to occupy its rightful plane of service in the mind of the community. The doctor will classify his customers further as he knows them or does not know them, and according as his knowledge indicates that they are good or poor credit risks. In a city, for example, the doctor may give services to someone totally unknown to him, who is likely to change his residence at any moment. Such persons should receive a statement at once after the call has been made, and should be followed up promptly, though with entire courtesy. It may be desirable in such cases, especially where the patient has made only one or two office calls, to note on

his record card that the collection follow-up shall be put on a two weeks' schedule instead of a month's schedule.

Promptness and Regularity

It is only fair to the patient to issue statements promptly and regularly. Any business man and any householder knows that it is a practical service to be reminded at the end of each month just what are one's outstanding obligations. It is a fundamental principle of collections that no one objects to being reminded promptly and regularly of the money one owes, provided this is done with courtesy. Bills should be rendered at the end of each month; to wait for three months or a longer period allows the patient to forget all about the obligation incurred, and moreover allows the benefit of the service to fade from his mind. When he is well again—or when his troubles have returned—the mental image of benefits received is less vivid, and it is harder for him to pay. There is nothing of pressure or urgency implied in the sending of regular statements; if the doctor desires he can print at the head of the sheet, "Memorandum of Services Rendered."

Letter with First Statement

A brief courteous note like the following may accompany the first statement:

Dear Sir:

In accordance with his usual practice, Dr. Eversly has directed me to send you the enclosed statement of services rendered during the month of March.

At your convenience kindly draw a check in favor of Paul Eversly and return it with this statement addressed to Miss Evelyn Langwell, 349 Locust Avenue.

Sincerely yours,
EVELYN LANGWELL,
Secretary to Dr. Eversly.

The apparent reason for this note is to give directions for sending this note to the doctor's secretary, so that it will not

be confused with his personal mail. Actually it also serves as a courteous suggestion for immediate action. The recipient sends in his check at once, without being aware that he has received a "collection letter." It is a wonderfully successful method for securing prompt payment from those who are able to pay, but are likely to postpone the settlement of "doctor's bills" until every other demand of necessity or extravagance has been satisfied. The businesslike directions of this note suggest businesslike payment.

Second Statement

The second statement to a "good credit risk" will have nothing stamped or printed on it, but if sent to a person whom for any reason the doctor thinks it necessary to follow up fairly closely, it may be marked with a rubber stamp, with a printed sticker, or with the words in ink, "Your check in payment of this statement will be appreciated"; or, "is respectfully requested."

The Third Statement

The third statement to a good risk, now that the account is sixty days overdue, may well contain a message as indicated in the preceding section. Action taken at this point will, of course, depend on the nature of the physician's practice. In a large city, he is likely to follow up his accounts promptly. His expenses are heavy, and his customers are able to pay. He has no right to be oversensitive about following a regular procedure, provided he does it courteously. If the customer cannot pay, he will be given a chance to say so.

The Time for Resale

Unless the doctor has come to an arrangement with his patient by this time, he ought to realize that the crisis of the

account has probably been reached, and that it is time for resale methods. A highly successful yet courteous method is to attach to his third statement a printed sticker reading, "The physician's moderate charge is made for the most valuable service you can receive. Will you not send your check in payment? It will be appreciated." This may also be imprinted with a rubber stamp. It should not be written in ink, as it is a general, impersonal statement of educational character, and will have better effect if printed than if given the "personal touch" of handwriting.

Another statement possible at this time is "This is a third request for payment. Will you not send your check promptly?" Or the secretary may write with a pen "Will you not let me have check in settlement of this account?" and sign the doctor's initials. The question is at once more pointed and more courteous than any other form of sentence.

The Fourth Request

When the account is ninety days overdue it has reached the "stage of discussion" (see Chapter XIX). It must not be allowed to drift along without an attempt to secure a response from the customer. The following letter is useful for this purpose:

Dear Sir:

Dr. Eversly directs me to say that if for any reason settlement in full for his services rendered is inconvenient now, he would much appreciate a letter from you or a personal call arranging for payment at your convenience.

Respectfully yours,
EVELYN LANGWELL,
Secretary to Dr. Eversly.

Fifth Request

The account should now be put on a two weeks' follow-up. Many physicians would consider it advisable to wait

only three days after the foregoing letter and then either to call the patient by telephone or to send a letter personally signed by the doctor, like the following:

Dear Sir:

My secretary tells me that for some reason which is not clear to her she has not been able to secure a reply to her various letters regarding my services for the month of March.

I am sure if there is any misunderstanding between us it can be removed by a moment's conversation, and certainly I am unwilling to let a cause of trouble grow up between us which can be so easily prevented.

Will you please call me up when you get this note and make an appointment to come and see me?

Yours very truly,

This letter takes a very friendly ground and assumes some personal misunderstanding as the basis for non-payment. When the debtor calls up, in nine cases out of ten, he will say, "No, there is nothing between us, but you know how it is—a man has to live. There are all my other bills to pay." The doctor must be careful not to get into an argument; it would be easy to point out that the debtor's other bills have not run for so long a time, but to begin such a conversation would not produce the money and it might easily lose the customer.

"All right," he answers, "I certainly am relieved that Miss Langwell misunderstood the situation. Then won't you please write me out a check for ten dollars"—suiting the amount to the size of the total indebtedness and to his knowledge of the customer's situation—"and Miss Langwell will send you a reminder for that amount every two weeks until we get it cleared up. That will take care of it without embarrassing you and it will get the thing off our minds."

If the debtor comes in instead of calling up by telephone, he will probably bring the money. If not, a conversation similar to the one above can be held. Above all, the conversa-

tion must be short and definite. The doctor's manner assumes that the patient is fully willing to pay, and now the difficulties are removed, for he will, of course, accept the very liberal arrangement. This manner will shame the customer into accepting the terms offered. Then the doctor can either change the subject or can arrange to have the secretary call him out, so as to break off the conversation.

Further Steps

The foregoing methods, as every physician will recognize, will collect almost every collectible account or provide an arrangement for payment. But if efforts to secure an interview fail, the doctor may turn the account over to a collector either with or without previous warning, or he may prefer to send out another letter making some appeals to fair play, good-will, etc., as discussed in Chapter XVI.

If these fail and if the patient is one whose good-will he wishes to retain, he should write a letter definitely reselling his services. Let him remember that unless he does so, his patient is lost to him forever, for it is an axiom in collection that no one will trade where he owes a bill.

Consider too how this fact affects his ability and his duty to serve the community. Through no fault of his own a barrier has been raised to prevent this person's calling him in at a time of need. Like the wise and skilful credit man in a mercantile house he realizes that this may injure his customer much more than it does himself. A letter like the following will produce the best results.

Dear Mr. Warren:

Suppose there were no doctors on the west side and your wife or your child were suddenly taken sick. The delay during those moments of terror in getting someone from another part of town, the danger to the safety of the one you love, would be something that at that moment you would pay almost anything to prevent.

But a doctor cannot live in Rochester unless the people pay him for his services.

I certainly do not want you to think that I am in the least unfair, but when I looked over my books last night and found how long it was since you paid me anything on account, I came to the conclusion that I would just say this word to you in belief that you had not thought of the matter in quite this fashion.

Won't you send me a check for, say, ten dollars, or at any rate stop in and see me tomorrow as you come down town? I shall be here between three and five. Or if I should be called out to relieve someone who may be as badly off as your wife was last winter, my secretary will be here and will very gladly take your check. She does not know that I am sending you this letter.

Faithfully yours,

"Would You Hesitate to Call Me?"

Another letter was written by a country physician to a well-to-do farmer whom he knew personally. The man was really fond of this doctor and would have gone to almost any length to avoid calling in another physician. Still he owed the doctor fifty dollars which had been due for some months. Besides repeated statements he had been spoken to twice about the account, but had put the doctor off easily. After thinking the matter over the physician sent him this letter.

Dear Mr. Wilson:

If Jack were to fall sick tonight would you hesitate to call me?

I don't believe you would, and I certainly hope you wouldn't. But sometimes you know when a man owes a bill for goods which is long overdue, he hesitates to trade in the same place because that lack of payment stands in the way.

You know I would come to your family and give them the best service in my power as a matter of friendship whether you ever paid me a cent or not, and I am going to believe that you and I are too good friends for you to take offense at my very frank letter, which is written only because I sincerely believe that you had never thought of the matter in just this way. If I am right, won't you send me a check for a part of the amount you owe me? If I am wrong, come in tomorrow and have it out with me and I will apologize.

Sincerely yours,

Using the Collector

When an account is turned over to the collector, the doctor should instruct him to use resale methods, similar to those represented in the preceding sections, before trying any appeals to fear or shame. The collector should also use vigorous, friendly questions asking an explanation. It is his task to work for a reply or an explanation that will reinstate friendly relations.

The Best Time for Collections

The doctor needs to think for a moment about the habits of payment prevailing in his community and about other local circumstances as well as the immediate financial position of his customer. In case of serious illness with people in moderate circumstances a physician does not usually render his bill until the conclusion of his calls, because the family cannot think about business matters at that time. In the same way a personal knowledge of the patient's state of mind or his pocketbook may help him in deciding what steps to take and when to take them, especially if he handles his accounts personally either by letter or by conversation when he happens to meet the patient. A collector, too, will time his visits to catch the weekly, biweekly, or monthly pay day. A sunshiny day after a rainy spell finds people in a more optimistic mood and better able to remember whether they have any money in the house to satisfy the collector.

A letter addressed to a business man's office may find him with his checkbook handy, while one sent to his home might be laid aside because action was not so easy at the moment. A letter mailed so as to reach a man at the breakfast table, on the other hand, may get the attention of his wife also and obtain her influence in securing payment. Or the case may be just the reverse, and evening may be the better time.

Etiquette or Merely Bad Business?

The doctor who has many accounts on his books and is unwilling to undertake regular collection may well think again about the points made early in this chapter. Does professional etiquette really demand the sacrifices involved in letting his accounts slide? Or is the situation due merely to an inherited bad practice, capable of being reformed without violating etiquette? Will not reform actually improve his ability to render service to his community, especially as it can be undertaken in such a way so as to make friends instead of lose them?

Collections for Legal Services

The strength of the lawyer's position in making collections is vastly greater than that of the doctor, for several reasons. First, he can decline to accept the case, which gives him the privilege of making credit. Second, he usually accepts a retaining fee in advance, which constitutes an admission by the client of the value of the service to be obtained. Third, his own knowledge of the law entrenches him in a strong position if it becomes necessary to press his claim for payment.

The unfamiliar or intangible nature of many of the lawyer's services, however, may at times make his collections slow or difficult. His client may be inclined to question the value set upon some of these items in the account, and while he does not raise the issue openly, he withholds payment on this score. It is highly important that the lawyer shall not get into an argument over these matters, but is quite proper for him either at the time of rendering account or after his early statements or letters have gone without effect, to offer to explain any item which may not be clear.

Usually he has not the advantage possessed by the physician of an intimate acquaintance with his customer; neither has he his corresponding disadvantage. His client in

most cases will be less sensitive about allowing his account to drag than he would be with regard to a similar doctor's bill. The latter is more like money owed to a personal friend, while the lawyer's bill has a more strictly business character. Accordingly the lawyer should be doubly businesslike in following up his accounts promptly and regularly.

Resale Methods for Lawyers

But the lawyer is as much interested as any other business man in keeping the practice he has built up. Although the nature of his profession gives him a thorough knowledge of harsh collection methods, he does not wish to use them lest he alienate good-will. His chief aim in case of difficulty should be to reach an arrangement for part payment, and this he can undertake without hesitation at the beginning of his collection procedure whenever in his judgment it is unwise to ask for full payment at once. On this occasion it may be effective to say, "We wish to be in a position to give you service in the future should occasion require. Accordingly may we respectfully ask your check in settlement of the enclosed account?"

All the collection appeals possible to the business man lie open to the lawyer's use. In letters written under different circumstances and to different types of clients he can ring the changes on pride, good-will, self-interest, etc., and adapt to his purposes letters that have succeeded in the mercantile field.

He has unusual advantage, it need hardly be said, in pressing for settlement in cases when reasonable methods have been without avail. "It should be unnecessary for us to point out," he can say, "that our knowledge of legal procedure makes it quite certain we shall be successful in collecting this bill. Why should you add by your delay to costs that eventually you must pay?"

CHAPTER XXXIX

WRITING THE LETTER

Important and Difficult Work

The writer of credit and collection correspondence has perhaps a more difficult task than the writer in any other department in the house. He has rights which must be very carefully safeguarded; he must make no false admissions or promises which weaken the case of his house against the delinquent; he must not show weakness, or he will arouse contempt, and cause the customer to disregard his correspondence; neither must he show undue harshness, lest he arouse anger, create a stubborn, defiant attitude, and perhaps be driven to severe action which will lose the customer. In spite of these restrictions, his letters must be varied enough to avoid the deadly monotony which, more than any other one cause, is responsible for the failure of many collection letters to get results. He must show a convincing logic, in order to demonstrate his mental superiority, and force the delinquent to respect him; for without respect he will be slow in securing results. His tone must always be reserved and cautious; he has not the license of the sales or advertising writer to show enthusiasm. In many cases he has not even a letter to which he may dictate a reply; he has not even new facts to guide his successive letters. His is an art, in a word, which must be exercised under severe limitations.

Nevertheless, if the writer of credit or collection letters appreciates the possibilities of resale, if he studies the psychology of the average debtor, and if he familiarizes himself with the multitude of possible appeals and the variety

of methods and devices that have been successfully used by others, and that are set forth in various chapters of this book, he will hardly be conscious of his limitations.

Write Your Own Letters

It is the "accent of reality" which above all else the writer of collection letters must cultivate. For this reason he needs to go very cautiously in using without alteration, letters written by others, for instance, the letters illustrated in this book. The best practice is to read and study such letters, weighing their phrasing and gaging their effectiveness for the situation he has in hand; then rewriting them as far as may be necessary in order to make them sound like his own language. This does not imply that a collection man may not with profit model his own practice on that of other successful men in his field, but it does mean that he can, without much effort, give to his own letters the color of his own personality.

The Value of Form Letters

Form letters in collections have great value; not only in saving time and expense, but what is of far greater importance, in providing a carefully prepared letter that avoids the dangers that beset all but the highly skilled writer, and a letter, moreover, that is interesting, logical, and compelling.

The form letter can be used in three ways, as: (1) a guide form, (2) a paragraph form, or (3) a complete form.

The guide form is a letter which the dictator has under his eye at the time of dictation, but which he remodels and phrases to fit the exact case he is dealing with, retaining perhaps only its logical outline.

The paragraph form is a loose-leaf book made up of paragraphs specially prepared or taken from previously dictated correspondence, classified so that one or more pages are filled with paragraphs relating to a given subject, or fitted for the

beginning, the middle, or the end of the letter. These are especially useful for the rapid handling of correspondence after a reply has been received from a delinquent, although they are also very useful at any stage of operation. The dictator turns the pages of his book, determines on the paragraphs he desires, and notes them in order on a slip which is given to the typist, who is provided with a copy of the book in which the paragraphs are contained. She then types the letter and submits it for signature. This provides for individually typed letters, which have all the directness and sincerity of specially dictated letters. They have even greater variety than the usual dictated correspondence, which is apt to get into a rut; and under most circumstances they have greater force.

If the complete form has been printed or mimeographed, and is kept in quantity ready to be issued on occasion, the greatest pains should be taken to fill in with precision the name and address and any inserts; for the appearance of carelessness or of machine methods tempts the customer to be careless in turn, and to pay little attention to formal and impersonal requests for payment.

But the complete form can be individually typed, either by hand or by the automatic typewriter. This permits the filling in of name and address, the amount due, the dates of previous letters, or personal references to the customer's business, etc., so that the letter presents a uniform appearance. The typist is merely supplied with these data and with the number of the form to be typed. If the automatic typewriter is used, this additional data should be run in at the end of paragraphs, so as to avoid the difficulty of making the data exactly fill the space left in the middle of a paragraph.

Perhaps the best plan, where forms are to be used, is to supply each typist and each member of the credit and collection staff with a book containing a number of complete forms, and a section devoted to paragraph forms. These can be re-

vised at fixed intervals, so as to prevent the same letter being sent to the customer twice. Frequently only slight revision will be sufficient to change completely the character of the letter. At the same time, one or more multigraphed forms may be used at the beginning of the series, and, if so, can be bound up in the book. An outline of the procedure of the department can be bound up in the same book, thus bringing all necessary matters under one cover.

Attention to "Symptomatic Detail"

The chief of a credit or collection department is a busy official, with many important constructive matters depending on him. He realizes that the most important part of his work is the forming of decisions; whether credit shall be granted and in what amount; whether extensions shall be allowed; whether severity shall be shown or leniency. He is tempted to feel that the language in which his decisions are conveyed is a mere matter of detail which can be left to his subordinates and he may even pay little attention to securing effectiveness in the language of his own dictated correspondence. True, it is poor efficiency for a superior officer to be concerned largely with detail. Nevertheless, there is a certain type of detail which merits his attention and which students of efficiency methods dignify by the term "symptomatic detail."

A superior officer should at stated intervals look over the carbon copies of letters issued from his department; not in large volume, but enough to give a cross-section of the method employed. If forms are employed, he can glance over them and make suggestions for their improvement, indicating rather the lines which they should follow than the exact phrasing.

The Department Manual

This is readily accomplished through the department manual, containing in outline the duties of each member of

the department, the procedure and system for following up accounts, and copies of all forms. New members of the department should receive their training through this manual and all questions of policy should be decided by its aid or entered in it, if not already to be found there.

Under these conditions an executive may have under his control the tremendously important matter of his departmental correspondence without being obliged to burden himself by unnecessary attention to detail.

The Study of Examples

One of the best ways of learning to write letters is by reading good examples. Any letter has several elements to which especial attention may be paid. The outline of its ideas may prove suggestive; the way in which the thought advances from point to point and the logical conclusion is enforced, may be the significant matter, or on reading the letter one may be struck by an original phrase or sentence which more than the rest "rings true." Whatever appeals to the reader as possessing naturalness, courtesy, logic, force, interest, or any other desirable quality can be noted for reference and employed on a later occasion. A good story can be retold in the writer's own words or it may suggest to him other stories equally good. A sentence may bring to his mind some way of saying the same thing either more crisply, or perhaps more fully and clearly, for the particular man he is writing to. Often he will find a sentence or paragraph expressing the idea so well that he wants to employ it in his own letters just as it stands.

A study of examples should strengthen, not weaken, the writer's own power of writing forceful, compelling letters; of saying things in such a way as to secure instant respect and to convey just the shade of good-will or urgency which he desires.

Visualize the Reader

Whenever you sit down to write a letter, look straight into the eyes of the man you are addressing. Summon him up before you in a mental picture; remember his personal characteristics, the nature of his past relations, his local business conditions, and any facts you may know about the state of his personal business. Refer to the salesman's report or to any data proceeding from someone who has known the customer personally, endeavoring in that way to bridge the gap of distance that separates you and him, and to call up before your eyes his bodily image, seated in the chair at the corner of your desk. Unconsciously this method of visualizing your reader will shape the letter you write. It will prevent your language from getting hackneyed, and will give it the "accent of reality" when it is read by your customer.

Jolt yourself out of your own point of view a moment and look at the matter from his point of view. Think of the reasons—the real, honest-to-goodness, brass-tack facts that are in all probability preventing the payment of the money due you. Remember your own experiences when you have been a debtor and found it inconvenient to pay at the time you were called on.

Then turn around and resume your present situation. Remember your rights and the customer's obligation. Remember that your interests and his alike demand prompt payment, and that the man who gives good advice in sincere friendship is doing the other fellow a better turn than the man who carries good nature to an extreme and allows the customer to get into the habit of believing his own excuses. It is a better favor to help your friend stiffen up his backbone and arouse his determination than to encourage him to play the jellyfish. A good, vigorous dose of resale doctrine or constructive credits may reawaken his optimism and his fighting spirit.

A careful study of the other chapters in this book, especially those on resale, constructive credits, the psychology of collections, and procedure may be undertaken, a few pages a day, while getting out one's regular correspondence.

What to Say and How to Say It

The task of writing the letter includes not only finding *how* to say the thing, but also deciding *what* to say; not only hitting upon the right phrases but also canvassing the whole range of facts which lies at the disposal of the writer of collection letters. He is apt to "run dry" and to rehash the same ideas again and again, unless he comes in stimulating contact with the work of other men in his field. Then he not only learns to adapt their material, but finds suggestions in it for new material developed from the field of his own experiences.

Essential Precautions

A few points should always be kept in mind by the writer of collection letters. Determine the facts of the case, the amount due, the date when due, the dates of previous communications and their nature, whether any payment has been made up to the moment the letter is mailed, whether any part of the amount is in dispute or is being made the subject of a claim, and just what is the basis of fact behind any statements of the debtor.

Never be drawn into an argument; the phrase "the stage of discussion" used in Chapters XVIII and XIX, does not for a moment imply that there should be any debate as to the justice of the creditor's attempts at collection, but merely indicates that at this point he can make a serious attempt to secure a reply, and to appeal to the debtor's reason.

Never threaten criminal proceedings or employ threats of any character. A mere suggestion of unpleasant consequences, of the visit of an attorney, or collector, of lost credit

standing, or the costs and unpleasant notoriety of suit, is sufficient without making actual threats. A threat may make one liable to federal or state law. Never collect by post-card or print a statement on the outside of an envelope likely to reflect upon the recipient. Precise rulings on any material to be used can be obtained from a postal inspector by asking the aid of local postal authorities.

Long or Short Letters?

The short letter, other things being equal, suggests action. The long letter suggests discussion and consideration. Accordingly, except in very rare instances, a collection letter should be short. It need almost never exceed a single page; if paragraphs are single-spaced, with double spacing between them, and still more if the elite type is used, hardly one letter in a thousand need run over one page.

A short letter suggests that there is no use talking about the matter; the facts are as stated and the mere suggestion of an appeal to good-will or fair play, etc., will surely be sufficient to secure prompt action.

A long letter, on the other hand, implies, "Let us have a serious talk about this matter. I do not believe you have given it consideration, or appreciated its full gravity. I want to help you to look at the matter in the proper light." But if a letter is long, that is to say, a full page or nearly so, it must carefully exclude all meaningless words and sentences and marshal before the eyes of the debtor a close-packed array of facts and arguments which demonstrate the strength of the creditor's position. Plenty of illustrations are included in other chapters in this book.

It is a good plan for letters in a series to vary somewhat in length, so that they do not all look alike to the customer. This arouses his interest and he is more likely to read each letter with attention.

Does a Delinquent Deserve Courtesy?

The question of "good treatment" or "rough treatment" has been abundantly discussed elsewhere in this book. Unfailing courtesy is always more productive of respect, and in the long run is more likely to lead to action than severity. Sarcastic statements arouse anger and do not secure action, so, although they may be useful as a means of relieving the creditor's feelings, they hardly add to the efficiency of his department. Write such letters if you want to; but let them cool for twenty-four hours and then throw them into the waste-basket.

"Yes," responds some collection manager, "but you forget that this man has defaulted in his obligations. What right has he to my courtesy?" Well, possibly he has no right, though it must be remembered that in his own home town he is walking the streets with the respect and esteem of his fellow townsmen, and if his conscience pricks him with the thought of this defaulted obligation, he consoles himself with the memory of the far greater number of instances in which he has honorably lived up to requirements. To some degree the foregoing is true of every delinquent.

But the question is not solely of his rights; it is chiefly "What is the most effective means of securing the money and of keeping the customer?"

E. M. Hurley, when Chairman of the Federal Trade Commission stated in an address at Philadelphia before the Sales Managers Association, that it would pay the United States Government not to stand on its rights and to ask whether Uncle Sam was obliged to show courtesy to the people of the country, but to inquire instead whether the relation between government and people could not be made more effective by adopting greater cordiality and personal quality in correspondence. "Little things," said Mr. Hurley, "very often are responsible for misunderstandings and may cause

ill feeling when there is no substantial reason for it. The United States Government, which I understand transacts 90 per cent of its business by mail, does not write letters that pull. They are apt to begin, 'Sir: You are hereby notified' and the remainder of the letter is often couched in terms which put the recipient on the defensive and make helpful co-operation impossible." He told how a certain department instructed its employees that if they used the word "please" in telegrams they would have to bear the expense themselves; that the same department objected to the phrase "We thank you for the favor," on the basis that the Government did not have to thank anyone. "Is there any quicker way," he asked, "to separate friends or to force customers off your books, or to create a break between business men, than to send out cold, sarcastic letters? I honestly believe that much of the ill feeling that has existed between government and business in the past fifteen years has been caused by the discourteous letters that have been issued by the departments at Washington to business men." He ended by saying that each department at Washington should have a sales manager who is accustomed to sell service.

Diplomatic Language

It must never be forgotten that the man who handles credit or collection letters is working in a powder factory, where a careless step may strike a spark that will blow the whole establishment into the air. A business man's "credit conscience" is the tenderest part of his anatomy, and he does not like to have it roughly handled.

"No, I don't bother with diplomacy in letters," said one credit man presiding over the city desk in a wholesale company. "If one of my customers exceeds his credit limits or anything like that, I have him come in and then I have it out with him." The testimony of his customers was that he

needlessly irritated them by blunt and brusque questions when a little diplomacy would have achieved the results and improved good-will.

The language used in diplomatic correspondence, of which many remarkable examples have been before the public in the last few years, illustrates the caution and reserve necessary in treating subjects which concern such sensitive matters as national honor. A single clumsy statement, a moment's indiscretion, may have serious consequences; while any lack of firmness or failure to show intellectual strength would be interpreted by the opponent as an evidence of weakness. President Wilson's diplomatic and administrative communications form a body of documents unexcelled in the annals of government, and are worthy the careful study of every executive whose correspondence deals with matters of importance.

The point in which diplomats must be especially cautious is that of not attributing to the party addressed, improper motives for action committed. The action may be stated impersonally; then some assumption favorable to the good intentions of the other party may be mentioned, and his conduct in the past may be brought in as evidence to show why the writer is confident of his present good intentions. If the writer strongly suspects improper motives, he will express, when mentioning them, extreme reluctance to believe that they can possibly exist.

One highly diplomatic manner of handling unpleasant subjects is to speak frankly of the writer's own shortcomings in these particulars. "I realize perfectly," the credit man may write, "that many circumstances may occur which embarrass a merchant in making payment as promptly as his own good business sense would advise him. We have been in business too many years not to have had experience in such matters ourselves. At the same time I can say that we have tried to make it a matter of policy to have at all times the frankest

understanding between ourselves and our creditors, believing that this is the only satisfactory method in the long run." By a study of the chapters on psychology, the writer will often see how a subject, which, when carelessly handled, would arouse anger, shame, or fear in such a way as to delay payment and injure good-will, can be turned into an appeal to pride, or self-interest, or good-will, reselling the customer and getting the money. A single sharp phrase, indirectly introduced, is usually more effective in case of need than a letter filled with threats. On the other hand, certain types of business men understand no language save that of the "big stick."

Specific Language

The previous section has shown the importance, in dealing with the customer's motives for failure to pay, of using diplomatic language. At the same time in order to produce action the letter must employ specific language. But this specific language can be restricted to topics not likely to cause offense; for example, some experience, action, or portion of office routine of the writer or the customer. For instance, "This morning Mr. Walton laid on my desk a memorandum showing our correspondence on your account. I see that it indicates dates of January 4, January 14, January 24, as the ones on which we have sent you reminders"—or another example, "Yesterday's issue of the *Wall Street Journal* contained the following statement"—or again, "Just put on your memorandum pad for August 10, 'Send Smith check for $150' "—or a very direct appeal, "Now, suppose you turn to your bookkeeper and say, 'Miss Jones, make out a check for Smith and Company.' "

Instances like the foregoing could be multiplied; a great many are to be found in the letters shown throughout this book. A single phrase of specific language, especially if it pictures some action so clearly as to bring it vividly before

the reader's mind, is a powerful incentive to action. Coming at the beginning of the letter, it arouses interest and secures attention; coming at the end it suggests immediate response.

Working for a Twofold Result

Whenever a collection man prepares a form or sits down to dictate a letter, he has his eye on two results, namely, collection and resale; he is determined to get the money, and he is equally determined to retain or even to increase good-will. If the collection of the outstanding account alone secures his attention, he will not unnaturally show the severity which the delinquent deserves. But if he looks beyond this transaction to friendly relations in the future and estimates the volume of business which the coming years may bring from this customer, he is more likely to realize that the present difficulty is but an incident in the history of their dealings, and that by means of tact and good advice he may eventually bring the slow-pay man into the good-pay class.

What Action Is Wanted?

The action desired is prompt payment in full; part payment on a basis agreed upon; a definite agreement to pay at a certain time or times; or an answer explaining the debtor's position, on the basis of which an arrangement may be made. Any one of these may be the result which the collection man works toward when writing a letter. He will not have determined on his objective without an analysis of the situation. If he has determined to secure payment in full, his letter will not suggest or imply that any other basis for settlement will be accepted. If he makes an offer of a different character, it must be clear-cut and definite, and his letter, however reasonable in tone, must not imply any weakening from this position. It is frequently a good plan to put such an offer last in the letter, so that no qualifying statement may

appear to impair its force. Of course, it may be desirable to follow such an offer with a statement that other less lenient measures will follow should he fail to take advantage of this offer.

Outlining the Letter

Just as the procedure of a collection department must be clear-cut and definite, advancing from point to point with the sureness of a skilled chess player who is certain of victory, so the various paragraphs of a collection letter or credit letter must show clear organization, giving evidence of a mind that has the end in view from the beginning. However lenient such a letter may be in tone, its logical outline must show the strong hand under the velvet glove. A letter which rambles or introduces unnecessary matter, or which draws illogical conclusions, is worse than no letter at all. Herein lies the difficulty of correspondence on this subject, which drives some executives to a belief in letters of only two or three sentences, or in sending telegrams. The difficulty with the correspondence and procedure which is restricted as it were to monosyllables, is that there is nothing constructive in it; there is only a series of urgent demands. If the debtor is sullen or discouraged he will disregard this kind of communication as long as possible, while the creditor has forfeited his opportunity for building good-will and developing him into a source of more profitable relations.

In general, the safe rule for all correspondence is to put facts first and comments later. This shows fairness and avoids misunderstanding; the facts speak for themselves and the comments which follow can be more guarded without losing effect. A typical outline begins by stating facts of unanswered correspondence, broken promises, etc.; then suggests possible causes for this; then includes resale material, such as a courteous statement of fundamental credit principles;

then states the customer's own undoubted appreciation of the foregoing facts, and requests action.

Another typical outline begins with a request for action, followed by a specific statement of the reason for asking it, concluding with a statement of confidence that the action will be forthcoming.

Another logical structure begins with some sort of "hypothetical question," an anecdote or illustration, followed by a statement of the present situation between the creditor and his customer, showing how it parallels the foregoing situation, and concluding with a request for action. In the chapters on psychology and on procedure, as well as on selling and reselling credit, various suggestions will be found for the organization of the individual letter, both in principle and in example.

Long Sentences, Short Sentences, and Questions

A very different effect is produced by the same statement if put in different sentence forms. A long sentence may produce the effect of courtesy and diplomacy; a short sentence is incisive and emphatic, and carries an air of finality; while a question points a vigorous finger straight at the reader, challenging his attention. "We need hardly remind you that in fairness to our other customers who abide by our terms and to whom we make the same prices as to yourselves, we are unable to allow extensions unless some specific arrangement is made in advance," is a statement which produces one effect on the reader. "We cannot allow extensions when no arrangement has been made," produces a different effect. Still more insistent in its claim for attention is the question, "Is it fair to take an extension without making definite arrangements with us?" or, "Do you think we can allow any of our customers to take an extension without previous definite arrangement?"

An Abrupt Beginning

The usual business letter, including that from the credit or collection department, begins with some courteous and unemphatic statement referring to the date of previous correspondence or other matter of routine. Consequently it is not a bad plan, especially in collecting petty accounts or where correspondence has been persistently neglected, to begin abruptly, as with the question, "Can you tell us of any good reason why you have not settled your account?" Such a sentence comes like a blow in the face. The rest of the letter may be entirely courteous and appeal to pride, good-will, or fair play; indeed, it is well to give it this character. But the reader has received a jolt that makes him "sit up and take notice." If the remainder of the letter is courteous, he will not feel angered. Such devices should be used only when fully justified.

Handling Each Paragraph

What has been said about the length and form of sentences applies also to paragraphs. The best test of this statement is to go over some of the letters in the chapters on procedure, and compare the effect of long and short paragraphs, or of the paragraph that begins with a question or with a short sentence as opposed to the paragraph that begins with a long sentence. It is advisable not to make paragraphs of the same length; if one consists of two or three lines and the next of four or five and the next of seven or eight, the effect on the reader's attention is better. Credit and collection correspondence, because of the diplomacy and caution needed, may use longer paragraphs than ordinary business correspondence.

A Final Word

The great importance of letters depends on the oft repeated fact that they are the representatives of the house

which issues them. That is to say, the customer sees only the correspondence. Occasionally he receives a visit from a salesman; at long intervals he may attend a convention or visit the house which sells him goods or receive a personal call from a representative of the credit department. But, for the most part it is the correspondence which represents to him the house. If letters are short, monotonous, uninteresting; if they show no real constructive regard for the merchant's welfare and contain no friendly, personal touches, they have little chance to build good-will or to produce a constructive effect in improving the attitude of the customer towards his credit responsibility.

The man who gets inside the envelope and journeys out to visit his customer with a friendly greeting and warm handclasp, stands a better chance of having his requests listened to than the man whose letters convey no impression of his personality. The reputation and wide influence of some of the foremost credit men in America have been secured in no small measure through their uncommon ability, gained in daily practice, to write good letters. They can talk to the customer with the same cordiality and interest as if he were seated beside the credit desk, and despite the handicap of distance, they can reach a logical, constructive solution of their common problems.

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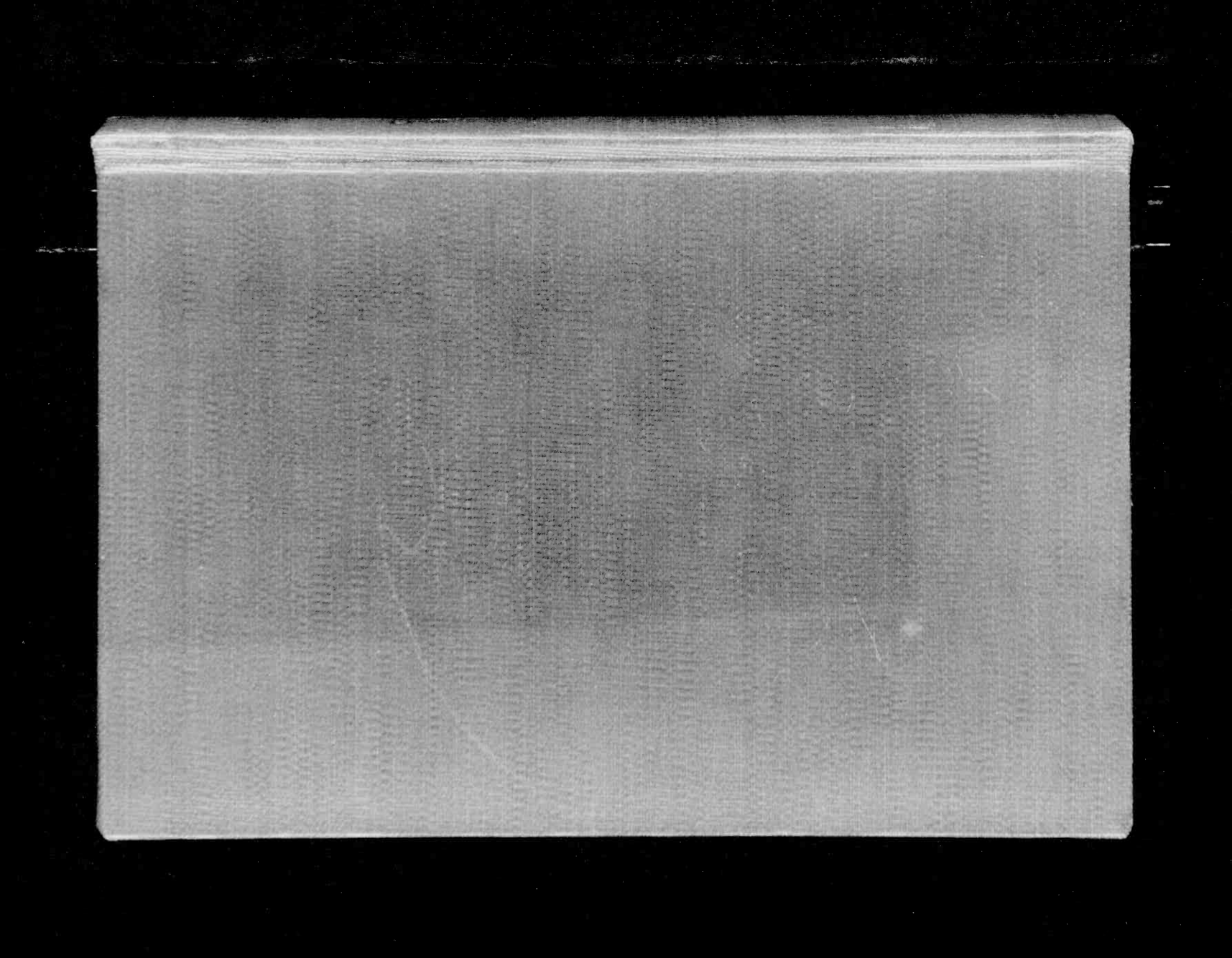

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